KARPAGAM ACADEMY OF HIGHER EDUCATION

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Coimbatore-641021
Department of Management

Name:Dr.M.NANDHINI **Department: Management**
Course Code:17BAU503A **Semester: V** **Year: 2017-20 Batch**
Course :TAXATION - I **LESSON PLAN**

UNIT I

SI.No	Lecture Hours	Contents	References
1	1	Tax – Meaning, Definition, Direct and Indirect Tax. Income Tax Act 1961	T : Page No : 1/3 – 1/5
2	1	History of Income Tax Act, Present Act	T : Page No : 1/5 – 1/7, W1
3	1	Definitions – Agricultural Income, Assessee, Average rate. Block of assets	T : Page No : 1/7 – 1/10
4	1	Definitions – Child, Charitable purpose, Person, Gross Total Income	T : Page No : 1/10 – 1/12
5	1	Definitions – Average rate, MMR, Previous year, Assessment year	T : Page No : 1/12 – 1/14
6	1	**TUTORIAL :**Definitions – Income – Features of Income	R1 : Page No : 39 - 42
7	1	Definitions – Tax treatment of income, Previous year, Assessment Year	R1 : Page No : 39 - 42
8	1	Basis of charge - Residential status of an Individual and HUF	R1 : Page No : 43 - 45
9	1	Basis of charge - Residential status of all other person	R1 : Page No : 46 - 48
10	1	Computation of Total Income	R1 : Page No : 48 - 85
11	1	Exempted Income - Agricultural Income, House Rent Allowance. Scholarship	R2 : Page No : 31 - 34
12	1	**TUTORIAL :**Exempted Income – Gratuity, Share of income from a firm, Income received by a non resident	R2 : Page No : 43 - 48
13	1	Heads of Income	R2 : Page No : 49
14	1	Recapitulation and discussion of important questions	
Total Number of hours planned for Unit I			14

UNIT II			
1	1	Income from Salaries – Definition, Characteristics of salary	T : Page No : 2/3 – 2/7
2	1	Provident fund – Different kinds of Provident Fund	T : Page No : 2/8 – 2/11
3	1	Allowances – Exempted Allowance	T : Page No : 2/11 – 2/14
4	1	**TUTORIAL :**Allowances – Taxable Allowance	T : Page No : 2/15 – 2/19
5	1	Perquisites – Exempted Perks	T : Page No : 2/21 – 2/25
6	1	Perquisites – Taxable Perks, Specified cases only	T : Page No : 2/25 – 2/27
7	1	Deductions out of Gross Salary - Problems will be worked out	T : Page No : 2/31 – 2/42
8	1	**TUTORIAL** Computation of Gross Salary Income - Problems will be worked out	R1 : Page No : 161 - 166
9	1	Income from House Property – Definition, Exempted Income from House Property	R1 : Page No : 166 – 173, W2
10	1	Different types of annual value Actual rent, Municipal Rental Value, Fair rental value, Expected rental value and Standard rent	R2 : Page No : 199 - 202
11	1	Determination of Annual value - Self Occupied and let out house property	R2 : Page No : 202 - 206
12	1	**TUTORIAL** Deductions under section 24	R2 : Page No : 212 - 220
13	1	Computation of House property Income - Problems will be worked out	R2 : Page No : 221 - 230
14	1	Recapitulation and discussion of important questions	
Total Number of hours planned for Unit II			14
UNIT III			
1	1	Profits and gains of Business or Profession – Definition	T : Page No : 2/201 – 2/205
2	1	Profits and gains of Business or Profession – Charging provision	T : Page No : 2/205 – 2/210, W3
3	1	Expressly admissible deductions Expressly inadmissible deductions	T : Page No : 2/211 – 2/215
4	1	**TUTORIAL** General deductions Expenses expressly allowed	T : Page No : 2/216 – 2/220
5	1	Expenses expressly disallowed Disallowing of certain expenses	T : Page No : 2/230 – 2/240
6	1	Computation of Professional Income - Doctor	R2 : Page No : 255 - 256
7	1	Computation of Professional Income – Lawyer and Auditor	R2 : Page No : 256 - 258
8	1	**TUTORIAL** Capital Gain – Meaning, Definition, Capital asset	T : Page No : 2/329 – 2/335,

9	1	Types of capital asset and capital gain	T : Page No : 2/336 – 2/342
10	1	Formulas and Format for computing – Short term gain	R2: Page No : 264 – 270
11	1	Formulas and Format for computing –Long term gain	R2: Page No : 271 – 275
12	1	**TUTORIAL** Methods of computing acquisition and improvement cost - Problems will be worked out	R1 : Page No : 329 - 332
13	1	Exempted Capital gain – under Section 54, 54B, 54D, Section 54EC, 54F	R1 : Page No : 334 - 345
14	1	Recapitulation and discussion of important questions	
Total Number of hours planned for Unit III			14
UNIT IV			
1	1	Income from other sources – General and specific income	T : Page No : 2/386 – 2/387, W4
2	1	Income from other sources – General and specific income	T : Page No : 2/387 – 2/390
3	1	Computation of Income from other sources	T : Page No : 2/390 – 2/392
4	1	Set off and carry forward of losses. – Provisions – Inter head transfer	R2 : Page No : 428 - 432
5	1	Set off and carry forward of losses. – Provisions – Intra head transfer	R2 : Page No : 433 - 442
6	1	**TUTORIAL** Deductions to be made while computing total income : Deduction in respect of certain income - Under Section 80C, 80CCC, 80 CCD	T : Page No : 2/340 – 2/360
7	1	Deduction in respect of certain income – Under Section 80 CCE, 80CCG, 80D, 80DD, 80 DDB	T : Page No : 2/360 – 2/465
8	1	Deduction in respect of certain income - Under Section 80 E, 80 G, 80 JJA, 80 LA, 80 P	R1 : Page No : 403 - 406
9	1	Deduction in respect of certain income - Under Section 80 QQB, 80 RRB, 80 TTA, 80 U	R1 : Page No : 406 - 409
10	1	Assessment of Individuals – Tax treatment of income received from different institutions	T: 4/23 – 4/26
11	1	Income of other persons to be included in the Total Income of an Individual	T: 4/27 – 4/30
12	1	**TUTORIAL** Provisions relating to set-off of losses. List of deductions out of GTI available to Individuals	T: 4/31 – 4/34
13	1	Computation of tax liability	T: 4/35 – 4/39
14	1	Recapitulation and discussion of important questions	
Total Number of hours planned for Unit IV			14
UNIT V			
1	1	Income Tax Authorities – Appointment and Control of	T : 5/3 – 5/6

		Income Tax Authorities	W5
2	1	Central Board of Direct Taxes, Director General, Commissioner, Joint Commissioner - Powers	T : 5/7 – 5/11
3	1	Assessing Officer, Income Tax Officer - Powers	T : 5/12 – 5/14
4	1	Income tax inspector	T : 5/14 – 5/17
5	1	Procedure for assessment – Filing of returns, Compulsory filing of returns	R1 : 561 - 566
6	1	**TUTORIAL** Penalty for non filing of returns, Forms of returns of income, Permanent Account Number	R1 : 566 - 571
7	1	Procedure for Assessment- Self assessment, Best Judgment assessment	R1 : 571 – 574, W1
8	1	Procedure for Assessment – Provisions relating to rectification of mistakes	T : 5/46 – 5/49
9	1	Collection of tax – Deduction of tax at source	T : 5/51 – 5/59
10	1	Advance tax – Pay as you earn scheme	T : 5/59 – 5/65
11	1	Payment of advance tax	T : 5/66 – 5/71
12	1	**TUTORIAL** Tax on assessment through demand notice	T : 5/72 – 5/78
13	1	Recapitulation and discussion of important questions	
Total Number of hours planned for Unit V			13
14	1	Discussion of previous year ESE Question papers	
15	1	Discussion of previous year ESE Question papers	
16	1	Discussion of previous year ESE Question papers	3
Total Number of hours planned for Unit V and discussion of previous year ESE Question papers			16

SUGGESTED READINGS:

TEXT BOOK

T - V.P.Gaur and D.B.Narang, Income tax Law and Practice, Kalyani Publishers, Ludhiana. 47th Edition 2019

REFERENCES

R1 - DinkerPagarae, Law and Practice of Income Tax, Sultan Chand and Sons, New Delhi, 43rd Edition, 2019

R2 - Bhagwati Prasad, Income tax Law and Practice, WishwaPrakshan Publishers, New Delhi. 51st Edition 2019

R3 - Dr.M.C. Mahrotra, Income Tax Law and Accounts, Sahitya Bhawan Publications, Agra, 59th Edition, 2019

WEBSITES

W1 - http://incometaxindia.gov.in/download_all.asp

W2 - http://www.du.ac.in/fileadmin/DU/Academics/course_material/TM_06.pdf

W3 - http://www.du.ac.in/fileadmin/DU/Academics/course_material/TM_07.pdf

W4- http://www.indiastudychannel.com/resources/156881-Income-from-other-sources-under-income-tax-act-1961.aspx

W5- http://incometaxmanagement.com/Pages/Tax-Management-Procedure/1-1-Various-Income-Tax-Authorities.html

Semester V

17BAU503A	SEC - 3 TAXATION - I	L	T	P	C
		5	1	-	4

SCOPE

Taxation represents the history of Income Tax Act, computation of gross total income and total income. Basis of charge explains the residential status of an individual, HUF and all other persons. An individual five heads of income namely income from salary, income from house property, profits and gains of business or profession, capital gain and income from other sources. This paper gives the assessment procedure of individuals and computation of tax liability.

OBJECTIVES

- To enlighten the students knowledge in direct tax
- To familiarize the students with the Income tax law
- To make the students understand the concepts of tax authorities

UNIT I

Income Tax Act - Definition - Income - Agricultural Income - Assessee - Previous year - Assessment year - Residential status - Scope of Total Income - Exempted Incomes - Heads of income.

UNIT II

Computation of Income from Salaries - Allowances - Perquisites - Deductions out of gross salary - Income from House Property - Annual value - Net annual value.

UNIT III

Computation of Profits and Gains of Business or Profession - Capital Gain - Long term Capital Gain - Short term Capital Gain - Exempted Capital Gain.

UNIT IV

Computation of Income from other sources - Set-Off and Carry Forward of Losses - Deduction from Gross Total Income - Assessment of Individuals

UNIT V

Income Tax Authorities - Procedures for assessment - Collection of Tax

Note: Theory and problems shall be distributed at 40% and 60% respectively.

SUGGESTED READINGS:

TEXT BOOKS

1. Gaur, & Narang. (2016). *Income Tax Law and Practice.* Ludhiana: Kalyani Publishers.

REFERENCES

1. Dingare Pagare. (2016). *Business Taxation.* New Delhi: Sultan Chand & Sons.
2. Dinkar Pagare. (2016). *Law and Practice of Income Tax.* New Delhi: Sultan Chand & Sons.
3. Bhagavathi Prasad. (2016). *Income Tax Law and Practice*. New Delhi: Wishwa Prakshan Publishers.
4. Manoharan, T.N. (2016). *Students Handbook on Income Tax Law.* Mumbai: Snow White Publications Pvt. Ltd.

UNIT-I - Introduction to Direct Tax

SYLLABUS

Income Tax Act - Definition - Income - Agricultural Income - Assessee - Previous year - Assessment year - Residential status - Scope of Total Income - Exempted Incomes - Heads of Income

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

Income-tax law in India

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

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

Finance Act:

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

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.

` The Income-tax Act, 1961 is the charging Statute of Income Tax in India. It provides for levy, administration, collection and recovery of Income Tax. Recently the Government of India has brought out a draft statute called the "Direct Taxes Code" intended to replace the Income Tax Act,1961 and the Wealth Tax Act, 1956. Public Commentary has been called for the Draft Bill. The redrafted bill is supposed to be made public soon.

Direct Tax

A tax that is paid directly by an individual or organization to the imposing entity. A taxpayer pays a direct tax to a government for different purposes, including real property tax, personal property tax, income tax or taxes on assets. Direct taxes are different from indirect taxes, where the tax is levied on one entity, such as a seller, and paid by another, such a sales tax paid by the buyer in a retail setting

Indirect Tax

A tax that increases the price of a good so that consumers are actually paying the tax by paying more for the products. An indirect tax is most often thought of as a tax that is shifted from one taxpayer to another, by way of an increase in the price of the good. Fuel, liquor and cigarette taxes are all considered examples of indirect taxes, as many argue that the tax is actually paid by the end consumer, by way of a higher retail price.

Income Tax Act, 1961

Every Person whose total income exceeds the maximum amount which is not chargeable to the income tax is an assesse, and shall be chargeable to the income tax at the rate or rates prescribed under the finance act for the relevant assessment year, shall be determined on basis of his residential status.

Income tax is a tax payable, at the rate enacted by the Union Budget (Finance Act) for every Assessment Year, on the Total Income earned in the Previous Year by every Person.

Basis of difference between Indirect Tax and Direct Tax

Basis of difference	Indirect Tax	Direct Tax
Taxable Event	Purchase / Sale / Manufacture of goods and provision of services	Taxable Income / Taxable Wealth of the Assessees.
Levy & Collection	Levied & collected from the consumer but paid / deposited to the Exchequer by the Assessee / Dealer	Levied and collected from the Assessee
Shifting of Burden	Tax burden is shifted to the subsequent / ultimate user	Directly borne by the Assessee. Hence, cannot be shifted.
Collected	At the time of sale of purchases or rendering of services	after the income for a year is earned or valuation of assets is determined on the valuation date

DEFINITION

1. **Agricultural income**

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 me a land.

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

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

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

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

Certain income which is treated as Agriculture Income:

(a) Income from sale of replanted trees.

(b) Rent received for agricultural land.

(c) Income from growing flowers and creepers.

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

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

(f) Income derived from sale of seeds.

Certain income which is not treated as Agricultural Income:

(a) Income from poultry farming.

(b) Income from bee hiving.

(c) Income from sale of spontaneously grown trees.

(d) Income from dairy farming.

(e) Purchase of standing crop.

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

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

(h) Royalty income from mines.

(i) Income from butter and cheese making.

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

Partly agriculture income

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

1. Profit of business other than Tea

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

2. Profit from Tea manufacturing

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

3. Income from the manufacturing of centrifuged latex or cenex

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.

2. Assessee Section 2(7)

"Assessee" means a person by whom any tax or any other sum of money is payable under this Act, and includes –

(a) Every person in respect of whom any proceeding under this 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

(b) Every person who is deemed to be an assessee under any provision of this Act

(c) Every person who is deemed to be an assessee in default under any provision of this Act

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”.

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

3. Assessment year Sect 2(9)

“Assessment year” means the period starting from April 1 and ending on March 31 of the next year. Eg: Assessment year 2013-14 which commences on April 1, 2013 and ends on March 31, 2014. Income of previous year of an assessee is taxed during the assessment year at the rates prescribed by the relevant Finance Act for tax rates.

4. Average rate

"Average rate of income-tax" means the rate arrived at by dividing the amount of income-tax calculated on the total income, by such total income

5. Block of assets

"Block of assets" means a group of assets falling within a class of assets comprising - (a) Tangible assets, being buildings, machinery, plant or furniture

Intangible assets, being know-how, patents, copyrights, trade-marks, licences, franchises or any other business or commercial rights of similar nature, in respect of which the same percentage of depreciation is prescribed

6. **Previous Year Sec 3**

“Previous Year" means the financial year immediately preceding the assessment year :provided that, in the case of a business or profession newly set up, or a source of income newly coming into existence, in the said financial year, the previous year shall be the period beginning with the date of setting up of the business or profession or, as the case may be, the date on which the source of income newly comes into existence and ending with the said financial year.

7. **Charitable Purpose**

Charitable purpose includes relief of the poor, education, medical relief, [preservation of environment (including watersheds, forests and wildlife) and preservation of monuments or places or objects of artistic or historic interest,] and the advancement of any other object of general public utility:

8. Person Sec 2(31)

Person includes

(i) an individual

(ii) a Hindu undivided family

(iii) a company,

(iv) a firm

(v) an association of persons or a body of individuals, whether incorporated or not,

(vi) a local authority, and

(vii) every artificial juridical person, not falling within any of the preceding sub-clauses.

9. Income Sec 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 for the welfare of such employees.

SCOPE OF TOTAL INCOME

Subject to the provisions of this Act, the total income of any previous year of a person who is a resident includes all income from whatever source derived which –

1. Is received or is deemed to be received in India in such year by or on behalf of such person (or)
2. Accrues or arises or is deemed to accrue or arise to him in India during such year (or)
3. Accrues or arises to him outside India during such year

10.**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”.

11.Total Income Sec 2(45)

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

INCOMES NOT INCLUDED IN TOTAL INCOME.

In computing the total income of a previous year of any person, any income falling within any of the following clauses shall not be included

1. Agricultural income
2. Subject to the provisions of sub-section (2) of section 64, any sum received by an individual as a member of a Hindu undivided family, where such sum has been paid out of the income of the family, or, in the case of any impartible estate, where such sum has been paid out of the income of the estate belonging to the family;
3. In the case of a person being a partner of a firm which is separately assessed as such, his share in the total income of the firm.

Residential Status

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. The residential status of a person as refered in Sec. 2(31) of the Act. for each assessment year under consideration to determine the scope of total income.

Importance

• Total income of an assessee cannot be determined without knowing his residential status.
• The residential status shall be determined for every person for each previous year independently.
• The onus of responsibility to prove the residential status is on the assessee.

The three residential status, viz.,

a.) Resident Ordinarily Residents (Residents)
b.) Resident but not Ordinarily Residents and
c.) Non Residents.

All residents are taxable for all their income, including income outside India. Non residents are taxable only for the income received in India or Income accrued in India. Not ordinarily residents are taxable in relation to income received in India or income accrued in India and income from business or profession controlled from India.

Tax incidence on an assessee depends on his residential status. For instance, whether an income, accrued to an individual outside India, is taxable in India depends upon the residential status of the individual in India. Similarly, whether an income earned by a foreign national in India (or outside India) is taxable in India depends on the residential status of the individual, rather than on his citizenship. Therefore, the determination of the residential status of a person is very significant in order to find out his tax liability.

The following norms one has to keep in mind while deciding the residential status of an assessee:

1. Different taxable entities

- All taxable entities are divided in the following categories for the purpose of determining residential status:

a. An individual;

b. A Hindu undivided family;

c. A firm or an association of persons;

d. A joint stock company; and

e. Every other person.

2. Different residential status

- An assessee is either: (a) resident in India, or

(b) non-resident in India.

However, a resident individual or a Hindu undivided family has to be

(a) resident and ordinarily resident, or (b) resident but not ordinarily resident. Therefore, an individual and a Hindu undivided family can either be:

a. resident and ordinarily resident in India; or

b. resident but not ordinarily resident in India; or

c. non-resident in India All other assessees (viz., a firm, an association of persons, a joint stock company and every other person) can either be:

a. resident in India; or

b. non-resident in India

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.

Resident And Ordinarily Resident

As per section 6(1), in order to find out whether an individual is "resident and ordinarily resident" in India, one has to proceed as follows

Step 1 First find out whether such individual is "resident" in India.

Step 2 If such individual is "resident" in India, then find out whether he is "ordinarily resident" in India. However, if such individual is a "non-resident" in India, then no further investigation is necessary.

Basic Conditions To Test As To When An Individual Is Resident In India -

Under section 6(1) an individual is said to be resident in India in any previous year, if he satisfies at least one of the following basic conditions

Basic condition (a) He is in India in the previous year for a period of 182 days or more

Basic condition (b)He is in India for a period of 60 days or more during the previous year and 365 days or more during 4 years immediately preceding the previous year

Additional conditions to test as to when a resident Individual is ordinarily resident in India

Under section 6(6), a resident individual is treated as "resident and ordinarily resident" in India if he satisfies the following two additional conditions —Additional condition (i) He has been resident in India in at least 2 out of10 previous years [according to basic condition noted above] immediately preceding the relevant previous year.

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

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. Control and management means de facto control and management and not merely the right to control or manage. Control and management is situated at a place where the head, the seat and the directing power are situated.

HUF- When ordinarily resident in India

A resident Hindu undivided family is an ordinarily resident in India if the karta or manager of the family (including successive karta) 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 Additional condition (ii) Karta has been present in India for a period of 730 days or more during 7 years immediately preceding the previous year If the karta or manager of a resident Hindu undivided family does not satisfy the two additional conditions, the family is treated as resident but not ordinarily resident in India.

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.

Residential Status of Every Other Person

As per section 6(4), every other person is resident in India if control and management of his affairs is, wholly or partly, situated within India during the relevant previous year. On the other hand, every other person is non-resident in India if control and management of its affairs is w holly situated outside India.

COMPUTATION OF TOTAL INCOME

DIFFERENT TYPES OF INCOME	**Resident**	**Not Ordinarily Resident**	**Non Resident**
Income received in India whether accrued in India or outside India	Taxable	Taxable	Taxable

Income deemed to be received in India whether accrued in India or outside India.	Taxable	Taxable	Taxable
Income accruing or arising in India whether received in India or outside India	Taxable	Taxable	Taxable
Income deemed to accrue or arise in India, whether received in India or outside India	Taxable	Taxable	Taxable
Income received and accrued outside India from a business controlled in profession set up in India	Taxable	Taxable	Not Taxable
Income received and accrued outside India from a business controlled from outside India or profession set up outside India.	Taxable	Not Taxable	Not Taxable
Income earned and received outside India but later on remitted to India.	Not Taxable	Not Taxable	Not Taxable
TOTAL INCOME	**XXXXX**	**XXXXX**	**XXXXX**

EXEMPTED INCOME (Section 10)

Section 10 is specifically dedicated to grant various exemptions to assessees of all class on Incomes earned by them. Below is a comprehensive summary of such exemptions,

Section	Type of Income
10(1)	Agricultural Income
10(2)	Amount received as share of income from the HUF
10(2A)	Amount received as share of profits from the firm
10(4)(i)	Amount received as interest or premium on redemption on specified bonds or securities
10(5)	Amount received as leave travel concession from employer or former employer
10(6)(vi)	Amount received as remuneration as an employee of a foreign enterprise for services rendered by him during his stay in India.
10(6B)	Tax paid on income (does not include Salary, Royalty, and Technical fees) by Central govt. or by an Indian Concern to the Central govt.
10(6C)	Royalty or fees for technical services.
10(10)	Gratuity.

10(10A)	Commuted pension
10(10AA)	Leave encashment
10(10B)	Retrenchment Compensation
10(10C)	Compensation for voluntary retirement (V.R.S)
10(10CC)	Tax on non-monetary perquisites paid by the employer
10(11)	Payments received from a provident fund
10(12)	Accumulated balance in a recognized provident fund
10(13A)	House rent allowance

The following Income is exempt from Income tax:-

1. Agriculture Income [Sec. 10(1)]
2. Payments received from family income by a member of HUF [Sec. 10(2)]
3. Share of profit from a firm [Sec. 10(2A)]
4. Interest received by a non resident from prescribed securities [Sec. 10(4)]
5. Interest received by a person who is resident outside India on amounts credited in the non-resident (External) account [Sec. 10(4)]
6. Leave travel concession provided by as employer to his Indian citizen employee, Sec. 10(5)]
7. Remuneration received by foreign diplomats of all categories [Sec. 10(6)]
8. Salary received by a foreign citizen as an employee of a foreign enterprise provided his stay in India does not exceed 90 days [Sec. 10(6)(vi)]
9. Salary received by a non-resident foreign citizen as a member of ship's 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)]

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

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 [Section10(39)]
69. Income of Industrial Units situated in trade-free zones, specified technology parks etc. [Section10A]
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 13A]

Income that is not subject to federal, state, and/or local taxes. Examples of tax-exempt income include Social Security benefits, veteran benefits, welfare benefits, and federal tax returns. Income derived from these sources is usually paid from pooled accounts which the government has earmarked for payment of such benefits. Income from such sources as qualified Roth IRA distributions, municipal bonds, academic scholarships, certain death benefits, and tax-exempt interest. The income derived from these sources is considered to have been previously taxed and is therefore, not subject to further taxation.

1. **Agricultural Income**

   As per section 10(1), agricultural income is exempt from tax if it comes within the definition of “agricultural income” as given in section 2(1A). In some cases, however, agricultural income is taken into consideration to find out tax on non-agricultural income

2. **Receipts By A Member From A Hindu Undivided Family**

   As per section 10(2), any sum received by an individual as a member of a Hindu undivided family either out of income of the family or out of income of estate belonging to the family is exempt from tax. Such receipts are not chargeable to tax in the hands of an individual member even if tax is not paid or payable by the family on its total income.

3. **Share of profit from partnership Firm**

   As per section 10(2A), share of profit received by partners from a firm is not taxable in the hand of partners

4. **Leave Travel Concession**

   As per section 10(5), the amount exempt under section 10(5) is the value of any travel concession or assistance received or due to the assessee from his employer for himself and his family in connection with his proceeding on leave to any place in India. The amount exempt can in no case exceed the expenditure actually incurred for the purposes of such travel. Only two journeys in a block of four years is exempt. Exemption is available in respect of travel fare only and also with respect to the shortest route.

5. **Foreign Allowance**

As per section 10(7), any allowance paid or allowed outside India by the Government to an Indian citizen for rendering service outside India is wholly exempt from tax.

6. **Educational Scholarships**

As per section10(16),scholarship granted to meet the cost of education is exempt from tax. In order to avail the exemption it is not necessary that the Government should finance scholarship.

7. **Daily Allowances Of Members Of Parliament**

Clause (17) of section 10 provides exemption to Members of Parliament and State Legislature in respect of the following allowances:

Cases	Nature of allowance	How much is exempt
Case 1	Daily allowance	Entire amount is exempt
Case 2	Any other allowance received by a Member of Parliament under the Members of Parliament (Constituency Allowance) Rules, 1986	Entire amount is exempt
Case 3	All allowances received by any person by reason of his member- ship of any State Legislature or any Committee thereof	Up to Rs. 2,000 per month in aggregate

8. **Dividends And Interest On Units**

As per section 10(34)/ (35),the following income is not chargeable to tax— a. any income by way of dividend referred to in section 115-O [i.e., dividend, not being covered by section 2(22)

a, from a domestic company

b. any income in respect of units of mutual fund

c. income from units received by a unit holder of UTI [i.e., from the administrator of the specified undertaking as defined in Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002]

d. income in respect of units from the specified company.

9. **Gratuity u/s. 10(10)**

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

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

Non- Govt. employee not covered by the payment of Gratuity Act 1972 Least of the following three is exempt from tax 1. Rs 10,00,000 2. Half months average salary for each completed year of service 3. Gratuity actually received

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

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

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

Payment received from an approved superannuation fund is exempted from tax

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

Exemption in respect of house rent allowance is least of the following three Amount equal to 50 percent of salary, where house is situated in metros and 40 percent of salary where residential house is situated at any other place. Actual house rent allowance received Excess of rent paid over 10 percent of salary

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

Compensation on voluntary retirement of an employee of a public sector company and other entities shall be exempted from tax to the extent of Rs. 5,00,000. Public sector undertaking and other entities include Company Local authority Establishment under central and state govt. Cooperative society Other state govt. and central govt. Institutions.

14. Amount paid on life insurance policies

As per section10(10D), any sum received on life insurance policy (including bonus) is not chargeable to tax. Exemption is, however, not available in respect of the amount received on the following policies –

a. any sum received under section 80DD (3) or 80DDA (3);

b. any sum received under a Keyman insurance policy;

c. any sum received under an insurance policy (issued after March 31, 2003) in respect of which the premium payable for any of the years during the term of policy, exceeds 20 per cent of the actual sum assured.

15. **Tax on perquisite paid by employer**

As per section 10(10CC), the amount of tax actually paid by an employer, at his option, on non- monetary perquisites on behalf of an employee, is not taxable in the hands of the employee. Such tax paid by the employer shall not be treated as an allowable expenditure in the hands of the employer under section 40.

HEADS OF INCOME

All income shall, for the purposes of charge of income-tax and computation of total income, be classified under the following heads of income -

A. Salaries.
B. Income from house property.
C. Profits and gains of business or profession.
D. Capital gains.
E. Income from other sources.

Part A (ONE Mark)

Multiple Choice Questions

Online Examination

Part B

1. Define Agricultural income
2. Define assessee
3. Define assessment year
4. Define previous year
6. Define Person
7. What is meant by tax treatment of income?
8. Mention the two test to claim the status of a resident?
9. Who is a non resident?
10. What is meant by HUF?
11. Give two examples for capital loss?
12. Explain the term revenue expenses?
13. List any four exempted income?
14. Give two examples for revenue receipt?
15. Who is a karta?
16. Write any four features of income?
17. Define income
18. Who is an ordinary resident?
19. List out the test for determining agricultural income?
20. Draw a chart showing the residential status of an individual

***CIA- 3 X 2 = 6 (ANSWER ALL THE QUESTIONS)**
****ESE - 5 X 2 = 10 (ANSWER ALL THE QUESTIONS)**

Part C

1. Discuss the residential status of a firm and company?
2. Define income and discuss the features of income with suitable examples?
3. List out and explain any ten exempted income with suitable examples?
4. Explain the residential status of an individual and HUF?
5. The following are the details of income of Mr .X

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

   Income from agriculture in Iran Rs.5,000

   Rs. 7,000 earned in India but received in Africa

   Rs.15,000 earned and received in Burma from a business controlled from India

   Income earned and received in Pakistan Rs.12,000

   Rs.7,000 was past untaxed foreign income which was brought to India during the previous year

   Compute Mr.X taxable income if he is (I) a resident (ii) a not ordinarily resident and (iii) a non-resident
6. The following are the details of income of Mr. Gautam
   - Income received in Cuba but earned in India Rs.10,000
   - Income from agriculture in Iran Rs.9,000
   - Rs. 9,900 earned in India but received in America
   - Rs.16,000 earned and received in Burma from a business controlled from India
   - Income earned and received in Pakistan Rs.13,000
   - Rs.17,000 was past untaxed foreign income which was brought to India during the previous year

   Compute Mr. Gautam taxable income if he is (i) a resident (ii) a not ordinarily resident and (iii) a non-resident

***CIA- 3 X 8 = 24 (EITHER OR TYPE)**
****ESE- 5 X6 = 30 (EITHER OR TYPE)**

TAXATION					
UNIT I					
QUESTIONS	OPTION I	OPTION II	OPTION III	OPTION IV	ANSWER
____________is an important instrument for the development of economy of the country	Taxation	Finance	Fine	Reward	Taxation
__________means the government that is central,state and local authorities	Public	Private	Corporate	Panchayat	Public
Taxes are ___________ payments to government	Compulsory	Optional	Flexible	Fixed	Compulsory
Expenditure can be classified into revenue and __________ expenditure	Indirect	Capital	Direct	Variable	Capital
________ commission is responsible for planning the expenditure	Planning	Directing	Organizing	Revenue	Planning
_________ expenditure involves those expenditure, which result in creation of asset	Revenue	Capital	Variable	Semi variable	Capital
The system of ________ taxation means that the tax rates for the rich and poor are the same	Progressive	Proportional	Regressive	Fixed	Proportional
A good________ should not affect the ability and willingness of the people to work, save and invest	Direct tax	Indirect tax	Tax system	Sales tax	Tax system
Tax is compulsory contribution by the _________ to the government	Tax payers	Manufacturer	Customer	Exporter	Tax payers
Tax is the __________ collection	Illegal	Legal	Unauthorized	Authorised	Legal
The payment of tax is ___________ in nature	Regular and periodical	constant	Irregular	Flexible	Regular and periodical
The welfare state aims at the removal of___________ in income and wealth	Similarities	Inequalities	Equality	Similarities and Inequalities	Inequalities
The levy of ----- is an indirect tax	Goods and service tax	Income Tax	Wealth Tax	Gift Tax	Goods and service tax
Qualities of good tax system is ______________	Equity	Productivity	Elasticity	Inelastic	Productivity
Advantages of direct taxes is_________________	Equitable	Economical	Certainty	Consistency	Economical
The _______________ stock is not taxed	Old	New	Opening	Closing	Closing
Income tax was passed in the year -------	1960	1961	1962	1963	1961
Rate of Income tax are fixed under ----------	The income tax Act	The finance act	Indian Contract Act	Partnership act	The income tax Act
An example to direct tax is ---------	Income tax	Sales tax	tariff	Excise duty	Income tax
Every year the residential status of an assessee ----------	Change	May not change	Fixed	May or May not change	May or May not change
In which section of Income tax act exempted incomes have been mentioned?	Sec 2	Sec 10	Sec 80	sec 82	Sec 10
The current previous year is -----------	2005-06	2006-07	2018 - 19	2008-09	2018 - 19
The current assessment year is ------------	2005-06	2006-07	2007-08	2019-20	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 ---------	Sur charge	Gross tax	Net tax.	Total tax	Sur charge
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	Individual, HUF and Firm	Firm	Individual, HUF and Firm
A person who does not fulfil 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 -----------	Fully Taxable	Fully Exempted	Partly Taxable	Partly Exempted	Fully Exempted
Education cess is leviable on --------	Salary	House Property	Tax liability	Capital Gain	Tax liability
Education cess is leviable at the rate of -----------	3%	2%	1%	5%	2%
Residential status is to be determined for ----------	Previous year	Assessment year	Accounting year	financial year	Previous year
There are _____ sections in Income Tax Act	298	292	293	275	298
As per income tax act 1961, Income includes-----------	Profits and gains	Dividend	Interest	Profits and gain, Dividend and Interest	Profits and gain, Dividend and Interest
While determining the residential status of individual basic conditions are given under section ---------	6 (1)	6 (2)	6 (3)	6 (4)	6 (1)
While determining the residential status of individual additional conditions are given under section --------	6 (1)	6 (2)	6 (3)	6 (4)	6 (3)
If an individual satisfies any one of the basic conditions and both the additional conditions , then he is called as ------------	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 in India and received outside India is taxable to ------------	All assessees	Resident only	Resident, not ordinary resident. And non resident	Person	Resident, not ordinary resident. And non resident
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
When impact and incidence falls on a same person then it is called ------------	Direct tax	Indirect tax	Excise duty	Customs duty	Direct tax

Every assessee is a person but every person need not be a ---------	Assessee	Resident	Citizen	NRI	Assessee
A life insurance policy taken by the employer on the lives of employee is known as--------	Endowment Policy	Keyman Policy	Profit Plus policy	Money Plus scheme	Keyman Policy
Residential status of individual is given under section --------	6	8	10	12	6
Income earned and received out side India from any other sources is taxable --------	Resident	NOR	Non resident	Citizen	Resident
The amount of scholarship granted to meet the cost of education is -----------	Fully Taxable	Fully Exempted	Partly taxable	Partly exempted	Fully Exempted
Income earned and received outside India from a business controlled or profession set up in India is taxable to --------------	Resident	NOR	Non resident	Resident and NOR	Resident and NOR
Rs.2,000 earned in India but received in canada is taxable for --------------	Resident	NOR	Non resident	Resident, NOR and Non Resident	Resident, NOR and Non Resident
Profit earned from the business in Mumbai is taxable for -----------------	Resident	NOR	Non resident	Resident, NOR and Non Resident	Resident, NOR and Non Resident
There are ------------------ heads of income	Two	Three	Four	Five	Five
The first heads of income in income tax is --------------	Salary	House Property	Capital Gain	Other Sources	Salary
The second heads of income in income tax is --------------	Salary	House Property	Capital Gain	Other Sources	House Property
The fourth heads of income in income tax is --------------	Salary	House Property	Capital Gain	Other Sources	Capital Gain
The fifth heads of income in income tax is --------------	Salary	House Property	Capital Gain	Other Sources	Other Sources
The third heads of income in income tax is --------------	Salary	House Property	Capital Gain	Business Income	Business Income

UNIT-II – Income from Salaries and House Property

SYLLABUS

Computation of Income from Salaries - Allowances - Perquisites - Deductions out of gross salary - Income from House Property - Annual value - Net annual value

INCOME FROM SALARIES

Income of a person is classified into 5 categories. Thus, income belonging to a particular category is taxed under a separate head of income pertaining to that category. Section 14 of the Act, has classified five different heads of income for the purpose of computation of total income. The fi ve heads of income are:

1)Income under the head salaries (Section 15 – 17)

2)Income from house property (Section 22 – 27)

3)Profits and gains from business or profession (Section 28 – 44)

4)Capital gains (Section 45 – 55)

5)Income from other sources (Section 56 – 59)

It may be noted here that an income belonging to a specific head must be computed under that head only. If an income cannot be placed under any of the first four heads, it will be taxed under the head "Income from other sources".

Certain expenses incurred in earning incomes under each head are allowed to be deducted from its gross income according to the provisions applicable to that specific head. Then, the net income under various heads is aggregated together to compute gross total income of the person. After making certain deductions which are allowed from gross total income (relating to certain expenses incurred or payments made or certain incomes earned) we arrive at the figure of total income for taxation purpose.

Salary (Section 15 - 17)

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

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

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

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

MEANING OF SALARY

Salary, in simple words, means remuneration of a person, which he has received from his employer for rendering services to him. But receipts for all kinds of services rendered cannot be taxed as salary. The remuneration received by professionals like doctors, architects, lawyers etc. cannot be covered under salary since it is not received from their employers but from their clients. So, it is taxed under business or profession head. In order to understand what is included in salary, let us discuss few characteristics of salary

Characteristics of Salary

1.The relationship of payer and payee must be of employer and employee for an income to be categorized as salary income. For example: Salary income of a Member of Parliament cannot be specified as salary, since it is received from Government of India which is not his employer.

2.The Act makes no distinction between salary and wages, though generally salary is paid for non-manual work and wages are paid for manual work.

3.Salary received from employer, whether one or more than one is included in this head.

4.Salary is taxable either on due basis or receipt basis which ever matures earlier:

i)Due basis – when it is earned even if it is not received in the previous year.

ii)Receipt basis – when it is received even if it is not earned in the previous year.

iii)\Arrears of salary- which were not due and received earlier are taxable when due or received, which ever is earlier.

5. Compulsory deduction from salary such as employees' contribution to provident fund, deduction on account of medical scheme or staff welfare scheme etc. are examples of instances of application of income. In these cases, for computing total income, these deduction shave to be added back

BASIS OF CHARGE: [Section 15]

As per Section 15, salary consists of the following:

a. any salary due from an employer or a former employer to an assessee in the previous year, whether actually paid or not;

b. any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer, though not due or before it became due;

c. any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer, if not charged to income-tax for any earlier previous year.

d. Once salary is taxed on due/receipt basis, it will not be taxed again on receipt/falling due, as the case may be.

e. Any salary, bonus, commission or remuneration, by whatever name called, due to or received by, a partner of a Firm from the firm is not regarded as salary under this head.

f. The assessee can claim relief u/s 89(1) for arrears or advance salary.

g. Loan from employer is not salary. Hence, advance salary is taxable, while advance against salary is not.

For the purposes of sections 15 and 16 and of this section,
"Salary" includes –

- Wages
- Any annuity or pension
- Any gratuity
- Any fees, commissions, perquisites or profits in lieu of or in addition to any salary or wages
- Any advance of salary
- Any payment received by an employee in respect of any period of leave not availed of by him
- The annual accretion to the balance at the credit of an employee participating in a recognised provident fund, to the extent to which it is chargeable to tax under rule 6 of Part A of the Fourth Schedule; and
- The aggregate of all sums that are comprised in the transferred balance as referred to in sub-rule (2) of rule 11 of Part A of the Fourth Schedule of an employee participating in a recognised provident fund, to the extent to which it is chargeable to tax under sub-rule (4) thereof;

The following income shall be chargeable to income-tax under the head "Salaries"

(a.) Any salary due from an employer 377 or a former employer to an assessee in the previous year, whether paid or not (b.) Any salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer though not due or before it became due to him

(c.) Any arrears of salary paid or allowed to him in the previous year by or on behalf of an employer or a former employer, if not charged to income-tax for any earlier previous year.

PROVIDENT FUND

	Statutory provident fund	**Recognized provident fund**	**Unrecognized provident fund**	**Public Provident Fund**
Employer's contribution to provident fund	Not taxable	Not taxable up to 12 per cent*of salary	Not taxable	Employer does not contribute
Employee's contribution	Available deduction u/s 80C	Available deduction u/s 80C	Not available	Available deduction u/s 80C
Interest credited	Fully exempt	Exempt up to 9.5% (from 01.04.2001 onwards)	On Employee contribution - taxable under "income from other sources" On Employer contribution – not taxable at the time of credit.	Exempt from tax

Lump sum payment received at the time of retirement or termination of service or withdrawn	Exempt u/s. 10(11)	Exempt from tax u/s. 10(12) Subject to conditions: not taxable if employee retires after 5 years of service or due to inability of work. Otherwise treated as URPF	Employee's Contribution exempt from tax & Interest thereon is taxable under the head of income from other sources. Employer' s contribution and interest thereon is taxable as Profits in lieu of Salary, under" Salaries")	

Allowance

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, allowances are divided into

3 categories:

I. Fully taxable allowances

II. Partially exempt allowances

III. Fully exempt allowances

It is the amount received by an individual paid by his/her employer in addition to salary. Under section 15 of the Income Tax Act, 1961 these allowance are taxable excluding few condition where they are entitled of deduction/ exemptions.

FULLY TAXABLE ALLOWANCES

i) Dearness Allowance and Dearness Pay

As is clear by its name, this allowance is paid to compensate the employee against the rise in price level in the economy. Although it is a compensatory allowance against high prices, the whole of it is taxable. When a part of Dearness Allowance is converted into Dearness Pay, it becomes part of basic salary for the grant of retirement benefits and is assumed to be given under the terms of employment.

(ii) City Compensatory Allowance

This allowance is paid to employees who are posted in big cities. The purpose is to compensate the high cost of living in cities like Delhi, Mumbai etc. However, it is fully taxable.

(iii) Tiffin / Lunch Allowance

It is fully taxable. It is given for lunch to the employees.

(iv) Non practicing Allowance

This is normally given to those professionals (like medical doctors, chartered accountants etc.) who are in government service and are banned from doing private practice. It is to compensate them for this ban. It is fully taxable.

(v) Warden or Proctor Allowance

These allowances are given in educational institutions for working as a Warden of the hostel or as a Proctor in the institution. They are fully taxable.

(vi) Deputation Allowance

When an employee is sent from his permanent place of service to some place or institute on deputation for a temporary period, he is given this allowance. It is fully taxable.

(vii) Overtime Allowance

When an employee works for extra hours over and above his normal hours of duty, he is given overtime allowance as extra wages. It is fully taxable

(viii) Fixed Medical Allowance

Medical allowance is fully taxable even if some expenditure has actually been incurred for medical treatment of employee or family.

(ix) Servant Allowance

It is fully taxable whether or not servants have been employed by the employee.

(x) 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.

PARTIALLY EXEMPT ALLOWANCES

(i) House Rent Allowance

Under sections 10(13A) of Income Tax Act, 1961 allowance is defined as an amount received by an employee paid by his/ her employer as a rent of his/her house. It is a taxable income. There is no exemption in tax if he is living in his own house or house for which he is not paying rent. There are following amount which are exempt from tax:

- Actual house rent paid by that individual
- Rent paid for the accommodation over 10% of the salary
- 50% of the salary if house is placed at Delhi, Mumbai, Kolkata, Chennai or 40% of the salary in it is placed in any other city

(ii) Entertainment Allowance

It is the amount paid by employer for availing entertainment services. Under section 16(ii) of Income Tax Act, 1961 it is entitled to deduction in tax from is salary. But in this case deduction is given to his gross salary which also includes entertainment allowance. Deduction in tax against this allowance can be divided into two parts:

(iii) 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, h elper allowance, research allowance and uniform allowance.

(iv) 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.e. not dependent on actual expenditure incurred in this regard. These allowances include:

a) 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).

b) 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.

c) 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.. However, in case of blind and orthopaedically handicapped persons, it is exempt u p to Rs. 1600p.m.

d) Out of station allowance

An allowance granted to an employee working in a transport system to meet his personal expenses in performance of his duty in the course of running of such transport from one place to another is exempt upto 70% of such allowance or Rs.6000 per month, whichever is less.

FULLY EXEMPT ALLOWANCES

(i) Foreign allowance This allowance is usually paid by the government toits 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.

Other Allowances

Allowances Exempted To The Extent Of Amount Received Or Specified Limit Whichever Is Less.

Allowances	Exemption limits
1 Children Education allowance	Rs. 100 p.m per child maximum 2 children
2 Children hostel exp. allowance	Rs. 300 p.m per child maximum 2 children
3 Tribal area allowance	Rs. 200 p.m
4 Transport allowance	Rs. 1,600 p.m
5 Transport allowance for transport employee	Least of 70% of allowance or Rs. 10,000 p.m
6 Underground allowance	Rs. 800 p.m
7 Compensatory field area allowance	maximum Rs 2600 p.m
8 Compensatory modified hill area allowance	maximum up to Rs. 1000 p.m.
9 Special Compensatory hill area or high altitude	Rs 300 p.m to Rs. 7000 p.m allowance, etc
10 Border area, Remote area, Disturbed area allowance	Rs. 200 p.m to Rs. 1300 p.m.
11 High altitude allowances (Non-congenial climate)	Rs. 1,060 p.m. (Altitude for 9000 ft to 15000 ft), Rs. 1,600 p.m. (Above 15000 ft)
12 Special compensatory for highly active field area allowance	Limit is Rs. 4,200 p.m.
13 Island allowance	Limit is Rs. 3,250 p.m.

14 Counter Insurgency Allowance	Limit is Rs. 3,900 p.m.

PERQUISITE

Perquisite" may be defined as any casual emolument or benefit attached to an office or position in addition to salary or wages. In essence, these are usually non-cash benefits given by an employer
to employees in addition to cash salary or wages. However, they may include cases where the employer reimburses expenses or pays for obligations incurred by the employee. Perquisites are also referred to as fringe benefits. Broadly, "perquisite" is defined in the section 17(2) of the Income-tax Act as including:

1) Value of rent-free or concessional rent accommodation provided by the employer.
2) Value of any benefit/amenity granted free or at concessional rate to specified employees etc.
3) Any sum paid by employer in respect of an obligation, which was actually payable by the assessee.
4) Any sum paid by the employer for assurance on life of theemployee or to effect a contract for an annuity.
5) Value of any other fringe benefit as may be prescribed

"Perquisite" includes

- The value of rent-free accommodation provided to the assessee by his employer
- The value of any concession in the matter of rent respecting any accommodation provided to the assessee by his employer
- The value of any benefit or amenity granted or provided free of cost or at concessional rate in any of the following cases
- By a company to an employee who is a director thereof
- By a company to an employee being a person who has a substantial interest in the company
- By any employer (including a company) to an employee to whom the provisions of paragraphs (a) and (b) of this sub-clause do not apply and whose income under the head "Salaries" (whether due from, or paid or allowed by, one or more employers), exclusive

of the value of all benefits or amenities not provided for by way of monetary payment, exceeds twenty-four thousand rupees.

Profits in lieu of salary under section 17(1) (iv) and section 17(3) of income tax act stats that profits in lieu of salary includes that following.

1. The amount of compensation due or received by an assessee from his employer or former employer at or in connection with
   a. The termination of his employment
   b. The modification of the terms and conditions relating to employment.
2. Any payment due or received by an assessee
   a. From an employer or former employer
   b. From a provident or other fund, to the extent to which it does not consist of contributions by the assessee or interest on such contributions.
   c. Any sum received under a key man insurance policy including the sum allocated by way of bonus on such policy
3. Any amount due to or received; whether in lump sum or otherwise by an assessee from any person
   a. before his joining any employment with that person
   b. any cessation of his employment with that person

   Exceptions: - the following receipts will not be considered for these clauses.

   a. any death cum retirement gratuity; it is chargeable under section 17(1) (iii).
   b. Commuted value of pension; it is chargeable under section 17(1) (ii).
   c. Retrenchment compensation: - it is chargeable under sub section (i) of section 17(3) above.

Perquisite includes :

(a) The value of rent free accommodation provided to the employee by his employer;

(b) The value of any concession in the matter of rent in respect of any accommodation provided to the employee by his employer;

(c) The value of any benefit or amenity granted or provided free of cost or at concessional rate in any of the following cases:

   (i) By a company to an employee who is a director of such company;

   (ii) By a company to an employee who has a substantial interest in the company;

   (iii) By an employer (including a company) to an employee, who is not covered by (i) or (ii) above and whose income under the head "Salaries" (whether due from or paid or allowed by one or more employers), exclusive of the value of all benefits and amenities not provided by way of monetary payment, exceeds Rs. 50,000.

The rules relating to valuation of such benefits and amenities have been prescribed in rule 3. It is further provided that 'profits in lieu of salary' shall include amounts received in lump sum or otherwise, prior to employment or after cessation of employment for the purposes of taxation. The rules for valuation of perquisite are as under :

I. **Accommodation** - For purpose of valuation of the perquisite of unfurnished accommodation, all employees are divided into two categories: (i) Central Govt. & State Govt. employees; and (ii) Others.

For employees of the Central and State Government the value of perquisite shall be equal to the licence fee charged for such accommodation as reduced by the rent actually paid by the employee.

For all others, i.e., those salaried taxpayers not in employment of the Central Government and the State Government, the valuation of perquisite in respect of accommodation would be at prescribed rates. The rate is 10% of 'salary' in cities having population exceeding four lakhs as per the 1991 census. For other places, the perquisite value would be 7.5% of salary.

The scope of the word “accommodation” has been widened by clarifying that it includes a house, flat, farm house, hotel accommodation, motel, service apartment guest house, a caravan, mobile home, ship etc. However, the value of any accommodation located in a remote area provided to an employee working at a mining site or an on-shore oil exploration site or a project execution site or an accommodation provided in an off-shore site will not be treated as a perquisite. A project site for the purposes of this sub-rule means a site of project upto the stage of its commissioning. A “remote area” means an area located at least 40 kilometers away from a town having a population not exceeding 20,000 as per the latest published all India census. Off-shore sites of similar nature do not have to meet any requirement of distance.

The definition of “salary” for calculating perquisite value is the same as per earlier Rules. The only change is that medical allowances and reimbursement for treatment of serious illness as prescribed in the proviso below section 17(2)(vi) have now been excluded from the definition of salary for this purpose. For furnished accommodation, the provision of valuation of perquisite of furnishings, fittings and furniture at 10% of original cost per annum or actual hire charges is continued.

In case of employers other than Central and State Govt., where accommodation is taken on lease or rent by employer, the actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower, as reduced by the rent, if any, actually paid by the employee, is taken as perquisite.

If an accommodation is provided by an employer in a hotel the value of the benefit in such a case shall be 24% of the annual salary or the actual charges paid or payable to such hotel, whichever is lower, for the period during which such accommodation is provided as reduced by any rent actually paid or payable by the employee. However, in cases where the employee is provided such accommodation for a period not exceeding in aggregate fifteen days on transfer from one place to another, no perquisite value for such accommodation provided in a hotel shall be charged. It may be clarified that while services provided as an integral part of the accommodation, need not be valued separately as perquisite, any other services over and above that for which the employer makes payment or reimburses the employee shall be valued as a perquisite as per the residual clause. In other words, composite tariff for accommodation will be valued as per these rules and any other charges for other facilities provided by the hotel will be separately valued under the residual clause. Also, if on account of an employee's transfer from one place to another, the employee is provided with accommodation at the new place of posting while retaining the accommodation at the other place, the value of perquisite shall be determined with reference to only one such accommodation which has the lower value as per the table prescribed in rule 3 of the Income-tax Rules, for a period upto 90 days. However, after that the value of perquisite shall be charged for both accommodations as prescribed.

II. Motor car :

(a) Where the motor car is owned or hired by the employer and is used wholly and exclusively in the performance of his official duties, no perquisite arises in the hands of the employee, subject to maintenance of documents as prescribed in sub-para (f) below. No perquisite arises even if the motor car is owned by the employee himself but the actual running and maintenance charges (including remuneration of the chauffeur, if any) are reimbursed to him by the employer, provided that the motor car is used wholly and exclusively for official purposes and the documents as prescribed in sub-para (f) below are maintained.

(b) Where the motor car is owned or hired by the employer and is used exclusively for the private or personal purpose of the employee, the value of perquisite would be equal to the actual amount of expenditure incurred by the employer on the running and maintenance of the motor car (including remuneration of the chauffeur, if any), as increased by the amount representing 10% of the actual cost of the motor car on account of normal wear and tear and as reduced by any amount charged from the employee for such use.

(c) Where the motor car is owned by the employee but the actual running and maintenance charges (including remuneration of the chauffeur, if any) are reimbursed to him by the employer and such reimbursement is for the use of the vehicle partly for official and partly for personal or private purposes, the value of perquisite shall be the actual amount of expenditure incurred by the employer as reduced by the amounts specified in column (I) of the Table below.

(d) Where the motor car is owned or hired by the employer and is used partly in the performance of his duties and partly for personal or private purposes, the value of perquisite shall be determined as per the Table below :

	Small car (upto 1.6 ltrs. engine capacity)	Large car (above 1.6 ltrs. engine capacity)	If chauffeur provided by employer to run the motor car, an additional amount as below is also charged
(I) Car owned/hired by employer and expenses on maintenance and running are met or reimbursed by the employer	Rs. 1,800 per month	Rs. 2,400 per month	Rs.900 per month
(II) Car owned/hired by employer but the expenses on running and maintenance for such private or personal use are fully met by the employee.	Rs. 600 per month	Rs. 900 per month	Rs.900 per month

(e) However, where a second or additional cars are provided, such other cars shall be deemed to be for exclusively personal use and the value of perquisite shall be computed accordingly.

(f) In a situation described in para (c) above, if it is claimed that the expenses on running and maintenance of the motor car for official purposes are higher than the amount mentioned in Column I of the Table above, such higher amount can be claimed as a deduction from the actual amount of expenditure incurred by the employer, subject to the fulfilment of the following conditions:

(i) the employer has maintained complete details of journeys undertaken for official purpose which may include date of journey, destination, mileage and the amount of expenditure incurred thereon; and

(ii) the employer gives a certificate that the expenditure was incurred wholly and exclusively for the performance of his official duties.

III. Personal attendants, etc. : The old rules provided for valuation of perquisite of free services of a sweeper, a gardener and a watchman at Rs. 120 per month. Under the new rules, the value of free service of all personal attendants including a sweeper, gardener, and a watchman is to be at actual cost to the employer. Where the attendant is provided at the residence of the employee, full cost will be taxed as perquisite in the hands of the employee irrespective of the degree of personal service rendered to him. Any amount paid by the employee for such facilities or services shall be reduced from the above amount.

I**V. Gas, electricity & water :** For free supply of gas, electricity and water for household consumption, the rules provide that the amount paid by the employer to the agency supplying the amenity shall be the value of perquisite. However, when the supply is made from the employer's own resources, under the old rules the value of perquisite was taken as nil. There was also a separate provision in the old rules for valuation at 6.25% of salary of the taxpayer for part official use. This has been discontinued. Under the new rules even where the supply is made from the employer's own resources, the manufacturing cost per unit incurred by the employer would be the value of perquisite. Any amount paid by the employee for such facilities or services shall be reduced from the above amount.

V. Free or concessional education : The old rules already provide that value of free education facility would be the expenditure incurred by the employer. Under the new rules free or concessional education shall be valued in a manner assuming that such expenses are borne by the employee, and would cover cases where an employer may be running, maintaining or directly or indirectly financing the educational institution. Any amount paid by the employee for such facilities or services shall be reduced from the above amount. However, where such educational institution itself is maintained and owned by the employer or where such free educational facilities are provided in any institution by reason of his being in employment of that employer, the value of the perquisite to the employee shall be determined with reference to the cost of such education in a similar institution in or near the locality if the cost of such education or such benefit per child exceeds Rs. 1,000 p.m.

VI. Free or concessional journeys : The Perquisite value of free or concessional journeys provided by an employer engaged in carriage of passengers or goods shall be taken as the value at which such benefit or amenity is offered by such undertaking to the public, as reduced by any amount actually paid by the employee. The conveyance may be owned, leased or made available by any other arrangement by the employer. However, no perquisite on account of free or concessional journeys arises in the case of the employees of an airline or the Railways. Journey tickets for leave travel, tours and transfers which are already exempt under section 10(5) and 10(14) would continue to be exempt.

1VII. Interest free or concessional loans : It is common practice, particularly in financial institutions, to provide interest free or concessional loans to employees or any member of his household. The value of perquisite arising from such loans would be the excess of interest payable at prescribed interest rate over interest, if any, actually paid by the employee or any member of his household. The prescribed interest rate would now be the rate charged per annum by the State Bank of India as on the 1st day of the relevant financial year in respect of loans of same type and for the same purpose advanced by it to the general public. Perquisite value would be calculated on the basis of the maximum outstanding monthly balance method. For valuing perquisites under this rule, any other method of calculation and adjustment otherwise adopted by the employer shall not be relevant.

However, small loans up to Rs. 20,000 in the aggregate are exempt. Loans for medical treatment specified in rule 3A are also exempt, provided the amount of loan for medical reimbursement is not reimbursed under any medical insurance scheme. Where any medical insurance reimbursement is received, the perquisite value at the prescribed rate shall be charged from the date of reimbursement on the amount reimbursed, but not repaid against the outstanding loan taken specifically for this purpose.

VIII. Travelling, touring, accommodation and other holiday expenses : It is increasingly common for employees to be provided with vacation and holiday facilities. The value of such perquisite shall be the expenditure incurred by the employer. This would also apply to official tours extended as a vacation and family members accompanying taxpayers on official tours. However, leave travel as per section 10(5) and enjoyment of holiday home facilities available uniformly to all classes of employees would remain exempt.

IX. Free meals : The provision of free meals varies widely from uniform canteen food, coupons, etc., to lavish hotel meals. The scheme of free meals as a staff welfare measure had been recognized and was admissible upto Rs. 35 for each meal. The new rule does not treat as perquisite free food and non-alcoholic beverages to the extent the value thereof does not exceed Rs. 50. Where any amount is recovered from the employee, such amount shall be reduced from the value of perquisite. Such free or subsidized food or non-alcoholic beverages should however be provided at office premises or through non-transferable vouchers meant only for meals during working hours. These vouchers provided by employers should be usable only at an eatery, a restaurant or a cafe. Tea or similar non-alcoholic beverages and snacks - in the form of light refreshments during working hours are not charged as perquisite. Also, arrangements for meals in 'remote areas' as prescribed in para 5.1(I) of this Circular and similar off-shore sites as specified, shall be exempt. However, expenditure on provision of free meals by the employer in excess of Rs. 50 should be treated as perquisite, as reduced by recoveries made from the employee.

X. Gift, voucher or token in lieu of gift : The value of any gift, or voucher, or token in lieu of which such gift may be received by the employee or by member of his household on ceremonial occasions or otherwise shall be determined as the sum equal to the amount of such gift. However, where the value of such gift, voucher or token, as the case may be, is below Rs. 5,000 in the aggregate during the previous year, the value of perquisite shall be taken as nil.

XI. Credit card & club expenses : Credit card expenses of employees both business and personal, are often borne by employers. Such credit card payments would ordinarily be chargeable to tax as a perquisite. However, these expenses are often incurred to entertain customers and clients for the purposes of business. Therefore, where such expenses on entertainment including meals are for purposes of business and proper records for the same are maintained no perquisite would arise.

Club expenses of employees borne by employers are charged as perquisite in terms of section 17(2)(iv). It has been specifically provided in the rules that annual and periodical club fees paid by the employer will be chargeable as perquisite. However, to ensure that basic facilities for the health and recreation of employees are not hit, health clubs, sports facilities, etc., provided uniformly to all classes of employees by the employer at the employer's premises are exempt. The initial one time deposit or fees for corporate or institutional membership, where the benefit does not remain with the employee after cessation of employment, are exempt. Where such expenses on entertainment including meals are for purposes of business and proper records for the same are maintained no perquisite would arise.

For credit card and club expenses to be exempt for business purposes, the following documentation needs to be maintained by the employer:

(a) complete details in respect of such expenditure including the date of expenditure and the nature of expenditure;

(b) a certificate by employer to the employee to the effect that the same was incurred wholly and exclusively for the performance of official duties.

XII. Use of assets : It is common practice for an asset owned by the employer to be used by the employee. This perquisite is to be charged at the rate of 10% of the original cost of the asset as reduced by any charges recovered from the employee for such use. However, the use of computers and laptops would not give rise to any perquisite.

XIII. Transfer of assets : Often an employee or member of his household benefits from the transfer of movable asset (not being shares or securities) at no cost or at a cost less than its market value from the employer. The difference between the original cost of the movable asset (not being shares or securities) and the sum, if any, paid by the employee, shall be taken as the value of perquisite. In case of a movable asset, which has already been put to use, the original cost shall be reduced by a sum of 10% of such original cost for every completed year of use of the asset. Owing to a higher degree of obsolescence, in case of computers and electronic gadgets, however, the value of perquisite shall be worked out by reducing 50% of the actual cost by the reducing balance method for each completed year of use. Electronic gadgets in this case means data storage and handling devices like computer, digital diaries and printers. They do not include household appliance (i.e.

white goods) like washing machines, microwave ovens, mixers, hot plates, ovens, etc. Similarly, in case of cars, the value of perquisite shall be worked out by reducing 20% of its actual cost by the reducing balance method for each completed year of use.

1. **RENT FREE ACCOMMODATION**

<table>
<tr><td colspan="5">Unfurnished Accommodation</td></tr>
<tr><td rowspan="4">Government Employees As per govt. rules:

Licenses Fees less

Rent recovered form employee</td><td colspan="3">Other Employees</td><td rowspan="4">In Hotel

24% of salary or actual charges whichever is less

** nothing taxable if accommodation is provided not more than 15 days and on transfer of employee from one place to another</td></tr>
<tr><td>Owned by employer</td><td></td><td>Not owned by employer (on lease or rent)</td></tr>
<tr><td>As per 2001 census</td><td></td><td>As per 2001 census</td></tr>
<tr><td>Population >25 lakhs
10 lakh < Population < 25 lakh
Population up to 10 lakhs</td><td>15%**
10%**
7.5%**</td><td>Actual rent or 15% of salary whichever is lower</td></tr>
</table>

The above is applicable only for unfurnished house

**% on amount of salary (less) Rent actually paid by employee

Furnished House

If the furniture (TV, washing machine) is provided then 10% p.a of cost of furniture or actual hire charges if taken on rent shall be added with unfurnished house.

Salary = basic salary + DA + bonus (current year) + commission + taxable portion of all allowance + Leave encashment

VALUATION OF PROVISION OF DOMESTIC SERVANTS

Servant appointed by	Servant's salary paid by	Value of perquisite	Taxable in the hands of
Employee or Employer	Employee	Nil	Not applicable
Employee or Employer	Employer	Actual cost incurred by the employer on the servant	All employees

3. **VALUATION OF SUPPLY OF GAS, ELECTRICITY OR WATER SUPPLIED BY EMPLOYER**

Facility in the name of	Value of perquisite		Taxable in the hands of
	Provided from own source	**Provided from outside**	
Employee	Manufacturing cost to the employer	Amount paid to the supplier	All employees

Employer	Manufacturing cost to the employer	Amount paid to the supplier	Specified employees

4. **VALUATION OF EDUCATIONAL FACILITIES**

Facility provided to	Value of perquisite		Taxable in the hand of
	Provided in the school owned by the employer	**Provided in any other school**	
Children	Cost of such education in similar school (an exemption of Rs. 1000 p.m. per child is available)	Cost of such education (an exemption of Rs. 1000 p.m. per child is available)	Specified employee
Other house hold member	Cost of such education in similar school	Cost of such education incurred	Specified employee

5. **VALUE OF LEAVE TRAVEL CONCESSION:**

Any concession received by employee for himself or his family for travelling to any place in India is exempt to the extent of amount spent subject to the following conditions:

1. Exemption only for two journeys in a block of four years and out of two journeys exemption for one journey can be claimed in the calendar year succeeding the end of the block. [current block: 2010-13]

2. Exemption only for two children but exemption will be available for all children born before October 1, 1998

Amount of exemption

Situations	Amount of exemption
Where journey is performed by air	Amount of economy class air fare of the national carrier by shortest route or amount spent whichever is less
Where journey is performed by rail	Amount of air conditioned first class rail fare by the shortest route or amount spent whichever is less
Where the place of origin of journey and destination are connected by rail and journey is performed by any other mode of transport	Amount of air-conditioned first class rail fare by the shortest route or amount spent whichever is less.
Where the place of origin of journey and destination are not connected by rail	
a) where a recognized public transport exists	First class or deluxe class fair by the shortest route or the amount spent whichever is less
b) where no recognized public transport exists	Air conditioned first class rail fare by shortest route or the amount spent whichever is less.

6. VALUE OF INTEREST FREE LOAN

* Calculate interest on the basis of SBI lending rates and interest paid by employee. The difference will be the value of perquisite

* Interest on maximum outstanding monthly balance of advance is considered to determine any concession in interest. Maximum outstanding monthly balance means balance of loan on the last day of each month.

* Nothing is taxable if –

- loans in aggregate do not exceed Rs 20,000 or
- loan is provided for a treatment of specified disease (Rule 3A) like neurological diseases, Cancer, AIDS, Chronic renal failure, Hemophilia (specified diseases).

7. VALUE OF PERQUISITE IN RESPECT OF MOVABLE ASSETS

Assets given	Value of benefits
a) Use of laptops and computers	Nil
b) Movable asset other than Laptops and computers	i. 10% p.a. of the actual cost of such asset, or ii. the amount of rent paid, or payable by the employer iii. Less: amount recovered from employee.

8. VALUE OF PERQUISITE IN RESPECT OF MOVABLE ASSETS SOLD TO EMPLOYEE

Assets transferred	Value of perquisites
Computers & electronics	Depreciated value of asset [depreciation is computed @50% on WDV for each completed year of usage] less: amount recovered from employee.
Motor cars	Depreciated value of asset [depreciation is computed @20% on WDV for each completed year of usage] less: amount recovered from employee.
Any other asset	Depreciated value of asset [depreciation is computed @10% on SLM for each completed year of usage] less: amount recovered from employee.

9. VALUE OF MEDICAL FACILITIES

The following shall not be treated as perquisite

a. Medical treatment of the employee or his family (spouse and children, dependent - parents, brothers and sisters):

- Provided in any hospital maintained by the employer.
- Any sum paid by the employer towards expenditure actually incurred by the employee in any hospital:

— Maintained by employer or Government or Local Authority or any other hospital approved by Central Government for the purposes of medical treatment of its employees;

— Approved by the Chief Commissioner having regard to the prescribed guidelines in respect of prescribed diseases.

b. Premium paid by an employer by cheque to General Insurance Corporation to effect/keep in force:

- Insurance on the health of his employees.
- Medical Insurance Premia.

c. Any sum, not exceeding Rs.15,000 , paid to any hospital/nursing home/clinic other than(a & b)

d. Amount payable for treatment Outside India: —

- Medical expenses — to the extent permitted by RBI.
- If Gross Total Income (before including the travel expenditure) of the employee, does not exceed Rs. 2,00,000/-, then travel abroad for patient and one attendant — fully deductible. Stay abroad for patient and one attendant - permitted by RBI.

10. VALUE OF MOTOR CAR

Owned or hired by employer and used

Exclusively for official purpose	Exclusively for private purpose	Both official and Private Purpose	
Nil. If specified documents maintained	Actual Running & Maintenance exp + remuneration of Chauffeur + actual Wear & tear @ 10% p.a of cost or hire charges if car taken on hire charges Less: amount recovered	Running and maintenance borne by *	
		Employer	Employee
		Up to 1.6 ltrs Rs. 1800 p.m + for chauffeur Rs. 900 p.m	Up to 1.6 ltrs Rs. 600 p.m + for chauffeur Rs. 900 p.m
		Exceeding 1.6 ltrs Rs. 2400 p.m + for drivers	Exceeding 1.6 ltrs Rs. 900 p.m + for drivers

		Rs. 900 p.m	Rs. 900 p.m

* Nothing is deductible in respect of any amount recovered from the employee

Owned by employee and used

Exclusively for official purpose	Exclusively for private purpose	Both official and private purpose	
Nil. If specified documents maintained	Actual expenditure incurred by employer (-) amount recovered from employee	Running and maintenance borne by	
		Employer	Employee
		Actual expenditure (-) Rs. 900 p.m	No tax

a. Employer should maintain complete details of journey undertaken for official purpose, which includes date of journey, destination, mileage and amount of expenditure incurred thereon.

b. Certificate of supervising authority of the employee, wherever applicable, to the effect that the expenditure incurred for wholly and exclusively for performance of official duties, should be provided

SPECIFIC EXEMPTIONS

1. **Gratuity [Sec. 10(10)]**

Gratuity is exempt only when it is received on - (a) retirement, or (b) becoming incapacitated prior to such retirement; or (c) resignation; or (d) termination of services.

Exemption is also available to gratuity received by the widow, children or dependants of the employee on his death.

Particulars	**Exemption**
Gratuity recd. by Govt. & Local Authority Employees	Fully exempt u/s 10(10) (i)
Gratuity in case of employees covered by Payment of Gratuity Act, 1972	Lower of following amount.
	1. [15 ÷ 26] x Salary last drawn x completed yrs. of service or part thereof in excess of 6 months 2. Maximum amount Rs. 10,00,000 (Rs. 3,50,000 up to 23rd May, 2010. 3. Actually received.
Salary = Basic Pay + Dearness Allowance entire	
Gratuity in respect of any other employee.	Lower of following amount.
	1. 1/2 x average salary x completed years of service (ignore fraction)

	2. Maximum amount Rs. 10,00,000 (Rs. 3,50,000 up to 23rd May, 2010. 3. Actually received.

Average Salary = Average Salary of last 10 months preceding month of retirement.

Salary = Basic Pay + Dearness Allowance (forming part of retirement benefits) + Commission based on the % of turnover

2. **Pension: [Sec. 10(10A)]**

Particulars	**Exemption**
A) Uncommuted pension recd. by any employee. (Govt. or Non-Govt.)	Fully taxable as salary.
B) Commuted pension recd. by Govt. employee.	Fully exempt from tax u/s 10(10A)(i)
C) Commuted pension recd. by Non-Govt. employee.	
1) If such employee receives gratuity.	1/3 of full value of commuted pension will be exempt from tax u/s 10(10A)(ii)
2) If such employee does not receive gratuity.	1/2 of full value of commuted pension will be exempt from tax u/s 10(10A)(ii)

3. **Leave Salary (Encashment): [Sec. 10(10AA)]**

Particulars	Exemption
Encashment of leave during service	It is charged to tax.
Encashment of leave at the time of retirement	
1. If Central or State Government Employees	Fully exempt from tax u/s 10(10AA)(i)
2. For any other employees	Whichever is less of following
	1. Earned leave months x Average salary 2. Avg. monthly salary x 10 3. Maximum amount 3,00,000 4. Actual received

Note: Period of leave in month

1. No. of actual yrs. of service

2. No. of leave entitlement for each completed year of service as per rules (subject to 30 days)

3. Gross total leave (in days) (step 1 x step 2)

4. <u>Less:</u> Leave encashed & availed during continuation of service (in days)

5. Period of earned leave (in days) (step 3 - step 4)

6. Period of leave in months (step 5/30)

Note: Average monthly salary for this purpose means avg. salary drawn in past 10 months immediately preceding the retirement.

Salary = Basic Pay + Dearness Allowance (forming part of retirement benefits) + Commission based on the % of turnover

4. **Retrenchment Compensation [Sec. 10(10B)]**

Compensation received at time of retrenchment, is exempt from tax to the extent of lower of the following:

1) 15 days' average pay for each completed yr. of services or any part in excess of six months.

2) Maximum amount Rs. 5,00,000.

3) Actual amount received.

5. **Voluntary Retirement Compensation [Sec. 10(10C)]**

Any amount received or receivable by an employee of

1) A public sector company

2) Any other company

3) Authority established under a Central, State or Provincial Act

4) A local authority

5) A co-operative society

6) A university established under a Central, State or Provincial Act or covered under the University Grants Commission Act

7) Notified Indian Institute of Technology

8) Notified Institute of Management

9) Indian Institute of Foreign Trade, New Delhi

10) Any State Government

11) Any Central Government

12) Any other Institute notified by Central Government.

at the time of his voluntary retirement under a scheme framed in accordance with guidelines prescribed by Rule 2BA. However an Employee of Public Sector Company should have completed **10 years of service or completed 40 years of age.**

Exemption is Least of the following.

1) Actual amount received under VRS.

2) Rs. 5 lakhs (to be reduced by total exemptions claimed in past years) in total from one or more employers

3) Last Drawn Salary multiplied by 3 months salary for each completed year of service.

4) Last Drawn Salary multiplied by Balance Nos. of Months of Service Left (Refer Rule 2BA also).

Where any relief has been allowed to an assessee under section 89 for any assessment year in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, no exemption under this clause shall be allowed to him in relation to such, or any other assessment year.

Deduction out of Gross Salary

The salary persons always ask from us that tell all the deductions which we can claim from salary for A.Y.2013-14 or any previous year. So we are giving the list of all the deductions which you can claim while calculating taxable salary income or net total income after adding other sources incomes. The deductions are given along with the income tax sections. So you can get all the complete details by going to that particular section in case of any doubt.

Entertainment Allowance: The first deduction which you claim from salary is Entertainment Allowance. Entertainment allowance received is first included in the employee's income and then a deduction is allowed in case of government employees, for a sum equal to 1/5th of salary (excluding all allowances, benefits and other perquisites) or Rs. 5,000, whichever is less.

Professional Tax: Tax on employment by whatever name called, levied by a State under Article 80C 276 of the Constitution shall be allowed as a deduction. [Sec. 16(iii)]

INCOME FROM HOUSE PROPERTY

This is the only head of income, which taxes notional income (except under some circumstances under capital gains, income from other sources). The taxability may not necessarily be of actual rent or income received but the potential income, which the property is capable of yielding. Accordingly, if a person owns a property which is levying vacant, notional income with respect to such property may be liable to tax even though the owner may not have received any income from such property. Further, if the property is let out and the rent received is less than the potential rent which the property is capable of yielding, tax would be payable on the rent which the owner is capable of getting and not on the actual rent (Refer heading – "Determination of annual value"). Though the head of chargeability of the income is Income from house property what is charged under this head not only the income from house (dwelling) but all income arising out of letting of building. In other words Sections 22 to 27 are wholly silent as to the purpose for which a building or a house property is to be used. This head of income can be aptly described as income from properties.

CHARGEABILITY U/S 22

a. What is chargeable under this head?

Annual value of property consisting of any building or land appurtenant thereto except such property which is used by assessee for the purpose of business and profession. If the building is used by the assessee for the purposes of his business or profession, no notional income from such building can be assessed to tax under the head "Income from house property" and no deduction on account of notional rent is available to the assessee while computing the income under the head "Income from business or profession".

b. In whose hand such income is taxable?

Income from house property is taxable in the hands of owner/deemed owner of the property. Owner is a person who is entitled to receive income from property in his own right. Income is chargeable in the hands of person even if he is not a registered owner. Rental income from sub-letting of property acquired on monthly tenancy basis or on lease for a period of less than twelve years may be taxable either as "Income from business or profession", where such letting is the business of the assessee or taxable as "Income from other sources". This would depend upon facts of each case.

PROPERTY OWNED BY CO-OWNERS (SECTION 26)

Where property consisting of buildings and lands appurtenant thereto is owned by two or more persons and their respective shares are definite and ascertainable, such persons shall not be assessed as an A.O.P. (Association of Persons) but the share of each person in the income from the property as computed under sections 22 to 25 (i.e., income from house property) shall be included in his total income.

Owner includes deemed owner u/s 27 as under:

— Transfer to spouse without adequate consideration or to a minor child not being a married daughter. However, if the transfer is under an agreement to live apart, such transfer to the spouse would not be covered.

— Holder of impartial estate shall be deemed to be owner of all the properties comprised in the estate

— A member of a co-operative society, company or other association to whom a building is allotted or leased under a house building scheme of society, company or other association as a case may be.

— A person who is allowed to take or retain possession of any building or part thereof in part performance of a contract of the nature referred to in section 53A of the Transfer of Property Act,1882 (4 of 1882).

— A person who acquires any lease rights of not less than twelve years (excluding any rights by way of a lease from month to month or for a period not exceeding one year)

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.

The term 'building' includes residential houses, bungalows, office buildings, warehouses, docks, factory buildings, music halls, lecture halls, auditorium etc. The appurtenant lands in respect of a residential building may be in the form of approach roads to and from public streets, compounds, courtyards, backyards, playgrounds, kitchen garden, motor garage, stable or coach home, cattle-shed etc., attached to and forming part of the building. In respect of non-residential buildings, the appurtenant lands may be in the form of car-parking spaces, roads connecting one department with another department, playgrounds for the benefit of employees, etc.

All other types of properties are excluded from the scope of income taxable under the head 'House Property'. Rental income from a vacant plot of land (not appurtenant to a building) is not chargeable to tax under the head 'Income from house property', but is taxable either under the head 'Profits and gains of business or profession' or under the head 'Income from other sources', as the case may be. However, if there is land appurtenant to a house property, and it is let out along with the house property, the income arising from it is taxable under this hea

The annual value of property consisting of any buildings or lands appurtenant thereto of which the assessee is the owner, other than such portions of such property as he may occupy for the purposes of any business or profession carried on by him the profits of which are chargeable to income-tax, shall be chargeable to income-tax under the head "Income from house property".

ANNUAL VALUE

For the purposes of section 22, the annual value of any property shall be deemed to be -

- The sum for which the property might reasonably be expected to let from year to year (or)

- Where the property is let and the annual rent received or receivable by the owner in respect thereof is in excess of the sum referred to in clause (a), the amount so received or receivable

Income from House property is computed by taking what is called Annual Value. The annual value (in the case of a let out property) is the maximum of the following:

- Rent received
- Municipal Valuation
- Fair Rent

If a house is not let out and not self-occupied, annual value is assumed to have accrued to the owner. Annual value in case of a self occupied house is to be taken as NIL. (However if there is more than one self occupied house then the annual value of the other house/s is taxable.) From this, deduct Municipal Tax paid and you get the Net Annual Value. From this Net Annual Value, deduct

- 30% of Net value as repair cost (This is a mandatory deduction)
- Interest paid or payable on a housing loan against this house

The annual value of house property has been defined as 'the amount for which the property may reasonably be expected to be let out for a year'. However, if your property is let out for the whole or a part of the financial year, the gross annual value will be the amount received during the year as a result of the letting out of the house property. This shall also exclude the rent that the taxpayer is unable to realize in the financial year.

The following four factors have to be taken into consideration while determining the annual property:

a. Rent payable by the tenant.
b. Municipal valuation of the property.
c. Fair rental value (market value of a similar property in the same area) of the property.
d. Standard rent payable under the Rent Control Act.

For calculating Income from house property, first step would be to derive Annual Value. It is always a difficult task to calculate annual value as there are total four factors which need to be considered for calculating annual value. I have explained in best possible simple way that What is Annual Value of House Property.

As per Section 23(1)(a) of the Income Tax Act, the annual value of any property shall be the sum for which the property might reasonably be expected to be let from year to year. It is like notional rent which you can earn if you have let out the property. As mentioned there are four factors to take into account for deciding annual value.

Actual Rent received or Receivable:

For any rent out property, Actual rent received or receivable is important for annual value. Actual rent paid or payable is always subject to agreement entered by owner and tenant or matter of negotiable between them whereby if tenant agree to pay for municipal taxes on behalf of owner then these taxes should be added in actual rent receive/receivable to derive annual value. There could be vice versa case, where owner has agreed to pay some obligation of tenant, in that case rent will be reduced by that amount.

Municipal value

Normally municipal authorities used to charged house tax on property based on various factors like type of residential, floor, facilities available in the premises etc.This value of property considered by municipal authority is relevant for deriving annual value of property.

Fair Rent

This is nothing but notional rent a property can get if it has been let out for a year. e.g. In case of apartment, one can assume approx rent of other similar flat which is already let out with some addition or reduction in rent with reference to facilities of both flats. Probable amount the owner of a property could reasonable except to receive from a stranger for lodging.

Standard Rent

Where a rent is fixed under prevailing Rent Control Act, it would be considered as standard rent and owner cannot expect to get higher rent than fixed as per rent control act. Standard Rent is important factor in deciding annual value.

Above given terminologies provide good understanding regarding what is Annual Value of House Property

Standard rent is the rent which the land lord is expected to receive from the tenant. Standard rent is only provided if the property is under Rent Control Act.

Under section 22,'house property' means buildings and land appurtenant thereto. The property other than buildings and land appurtenant to the building have been excluded from the section. The lands which are not appurtenant to any building are not included within meaning of the term "house property". The income derived from vacant plot of land on which no building has been erected is not chargeable under the head, 'Income from house property' but can be charged under the head "Income from other sources".

Thus, where a company is incorporated with the object to develop market consisting of shops and stalls, etc., the income derived by the company by letting out the market shops and stalls may be taxed under this head. It is to be noted where A building is erected and let out on lease for the purpose of a running hotel, the letting of the building cannot be taken as a carrying on business and the income is from the house property and not income from business. But where the assessee is carrying business of running hotel and subsequently he lets out the fully equipped hotel to someone, the income derived by him from such letting out will be taxed as income from business.

There is also a provision for the where the assessee is resident in India and owns house outside the India, the income derived from that house property will also be included in his total income, where non-resident having house property situated outside India the income derived from that will not be assessed.

The Assesses must be the owner of the house property

Owner of the house property is liable to pay tax in respect of the income from the house property. Here "owner" means the person who can exercise the right of the owner, not on behalf of owner but in his own right. Unlike English law, India law recognizes only one law and i.e legal ownership. The beneficial or equitable ownership is not recognized by the Indian law. In case of an insolvent person, his property vest in a office assignee and for the purpose of income-tax assessment in respect of income derived from the house property. But a receiver appointed by a court for the purpose managing the house can not be treated as a “owner” of the house property and he can not be liable to pay income tax in respect of the income derived from the house property.

It is noted where the assessee who was the owner of the house property executed a deed of settlement and under the deed gave his father right to receive the income derived from the house property, the court held that the ownership continued to vest in the assessee and therefore the assessee, not his father, was liable to pay income tax in respect of the income derived from the house property.

A person who is entitled to receive income from the house property in his own right is treated as owner for the purpose of section 22 of the Income Tax Act.

Deemed owner

In the following conditions, a person is deemed to be the owner of the house property under section 27:

a. If an individual transfer a house property to his or her spouse not for adequate consideration, such individual will be treated as the owner of the house property provided the transfer has not been made in connection with an agreement in live apart. Similarly, an individual, who transfers otherwise than for adequate consideration any house property to a minor child, not being a married daughter is also treated as the owner of the house property so transferred.
b. The holder of the impartible estate is deemed to be the individual owner of all properties comprised in the estate.
c. A member of a co-operative society, company or other associations of person to whom a building or part thereof is allotted or leased under a house building of scheme of the society, company or association, as the case may be shall be deemed to be the owner of that building or part thereof.
d. A person who is allowed to take or retain possession of any building or part thereof in part performance contract of the nature referred to in section 53A of The Transfer Property Act 1882, shall deemed to be the owner of that building or part thereof.

The house property must not be 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**.** Section 22 does not apply to case where:

a. The owner occupies the house property for the purpose of any business or profession carried on by him, and
b. The profits of such business or profession are chargeable to income-tax.

Determination of annual value of house property

Annual value how determined (section 23)

1. For the purpose of section 22, the annual value of property deemed to be **–**
   a. The sum for which the property might reasonably be expected to let from year to year; or
   b. Where the property or any part of the property is let and the actual rent received or receivable by the owner in respect thereof is in excess of the sum referred to in clause(a),the amount so received or receivable;
2. Where the property consists of a house or part of which-
   a. Is in the occupation of the owner for the purposes of his own residence; or
   b. Cannot actually be occupied by the owner by reason of the fact that owing to his employment, business or profession carried on at any other place, he has to reside at that other place in a building not belonging to him, the annual value of such house or part of the house shall be taken to be nil.
3. The provision of sub-section (2) shall not apply to if-
   a. the house or the part of the house is actually let during let during the whole or any part of the previous year or
   b. Any other benefit from there from is derived by the owner.

Deduction from income from house property (sec.24).

a. A sum equal to 30 per cent of the annual value
b. Where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowing capital, the amount of any interest payable on such capital

DETERMINATION OF ANNUAL VALUE

For determining the annual value, one has to first determine the gross annual value (GAV) which is the higher of :

a. The sum for which the property might reasonably be expected to let from year to year. In cases of properties where Standard rent has been fixed, such sum cannot exceed the standard rent fixed .However where property let was vacant during the whole or part of the previous year and rent actually received or receivable is less than expected rent, then rent actually received or receivable is taken as GAV.

b. Where property is actually let out and the rent received or receivable is more than the amount determined in (a) above, the annual value would be the actual rent received.

- Amount of municipal tax realised from tenant
- Notional interest on amount received towards ‘rent/security deposit’ from the tenant
- Repairs carried out by the tenant.

ANNUAL VALUE TO BE TAKEN AS ‘NIL’ IN CERTAIN CASES

a. The annual value of a property which is in occupation of the owner for the purposes of his residence would be considered to be nil if he does not derive any other benefit from the said residential house. If the owner has more than one house for the purposes of his residence, the annual value of any one of such houses, at his option, would be considered to be nil. Notional income of other residential houses would be liable to tax. In such case owner may choose to consider the annual value nil (for computation purposes) in respect of the one property at his option.

b. Similarly, if the assessee is owner of only one residential house which he is unable to occupy on account of his employment, business or profession carried on at any other place and on account of which he has to reside at that other place in a building not owned by him, the annual value of such house shall be nil.

DETERMINATION OF NET ANNUAL VALUE (NAV)

The following amounts are required to be reduced while determining the net annual value :

a. Any taxes levied by any local authority, which are liable to be paid by the owner, only on actual payment thereof during the previous year; and

b. The unrealisable rent subject to satisfaction of conditions prescribed under Rule 4. Amount of unrealised rent shall be equal to the amount of rent payable but not paid by a tenant of the assessee and so proved to be lost and irrecoverable where,—

- the tenancy is bona fide
- the defaulting tenant has vacated, or steps have been taken to compel him to vacate the property
- the defaulting tenant is not in occupation of any other property of the assessee
- the assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless.

UNREALISED RENT REALISED SUBSEQUENTLY — SEC. 25AA

- The entire amount of unrealised rent received in the PY shall be chargeable to tax in the year in which such amount is received. (The deduction u/s 23/24 shall not be allowed if the unrealised rent pertaining to period up to AY 2001-02 & deduction u/s 24(1)(x) in respect thereof was allowed in earlier years.)
- Unrealised rent received subsequently is chargeable to tax even if the house property is not owned by the assessee in the year of such recovery.

ARREARS OF RENT RECEIVED S. 25B

Where any arrears of rent is received which was not taxed earlier, such rent shall be assessed under the head "Income from house property" in the year in which such arrears are received i.e. taxable on receipt basis. The arrears would be taxable under this head irrespective of the fact whether the assessee is the owner of the buildings in the year in which such arrears are received. A deduction of 30% on account of repairs on the arrears of rent received would be allowed in the year in which such arrears are taxable.

DEDUCTIONS ALLOWED WHILE COMPUTING INCOME UNDER THIS HEAD

The following deductions shall be allowed from the annual value u/s. 24:

a. 30% of the annual value as computed.

b. Interest paid/payable on borrowed capital acquired for the purpose of acquisition, construction, repairs, renewals or reconstruction of house property subject to conditions and limits as mentioned herein after.

- Interest for the period prior to acquisition or construction of the premises would be deductible in five equal installments starting from the year in which property is acquired or constructed.

- **In case of self occupied House Property interest allowable is subject to following conditions:**

Sr. No.	Particulars	Limit of deduction (in Rs.)
1.	Property acquired/constructed after 1st April, 1999 with borrowed capital (deduction is allowed only where such acquisition or construction is completed within 3	1,50,000.00

	years from the end of the financial year in which capital was borrowed)	
2.	In all other cases.	30,000.00

Note:

a. Interest on new loan taken to repay original loan is considered as loan taken for such acquisition, construction etc. (Refer CBDT Circular No. 28 dt. 20.08.1969).

b. Where interest is claimed as a deduction, a certificate from the lender certifying the amount of interest payable should be furnished by the assessee.

c. The list of deduction specified u/s 24 are exhaustive, no other deduction can be claimed other than specified therein.

d. Interest on borrowed money which is payable outside India shall not be allowed as deduction u/s 24(b) unless the tax on the same has been paid or deducted at source and in respect of which, there is a person in India, who may be treated as agent of the recipient for such purpose.

e. Brokerage or commission paid to arrange a loan for house construction will not be allowed.

COMPUTATION OF INCOME FROM HOUSE PROPERTY IN NUTSHELL

Particulars	**Type of Property**		
	Let-Out Property u/s. 23(1)	**Self-Occupied House Property u/s. 23(2)**	**Deemed to be Let-Out Property u/s. 23(4)**

	Amt. Rs.	Amt. Rs.	Amt. Rs.	Amt. Rs.	Amt. Rs.	Amt. Rs.
(i) Reasonably Expected Rent		XXX		NIL		XXX
(ii) Actual rent received or receivable		XXX		NIL		NIL
Gross Annual Value (GAV)		XXX				
1. (i) or, **2. (ii)>(i), then (ii) or,** **3. (ii)<(i) due to vacancy then (ii)**				NIL		XXX
Less Municipal Taxes paid to local authority by the owner		(XXX)		NIL		(XXX)
1. Net Annual Value(NAV)		XXX		NIL		XXX
Less: Deduction u/s. 24						
(a) 30% of NAV	XXX		NIL		XXX	
(b) Interest on loans as allowed	XXX		XXX		XXX	
2. Total Deductions (a)+(b)		(XXX)		(XXX)		(XXX)
A. Income from House Property (1-2)		**XXX**		**(XXX)**		**XXX**
B. Add Unrealised Rent Received subject to conditions of deduction u/s.		**XXX**		**NIL**		**NIL**

23/24						
C. Add Arrears of Rent Received	XXX		NIL		NIL	
Less: 30% of arrears of Rent	(XXX)	**XXX**	NIL	**NIL**	NIL	**NIL**
Total Income from House Property (A+B+C)		**XXX**		**XXX**		**XXX**

llustration:

Mr. Ashikh retired in September, 2017 after having put in 42 years of service in a company. His average salary for 10 months preceding Sept. 2015 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:

½ month's salary for every completed years of service (2500x ½ x 42) = **52,500**

Actual amount of gratuity received = Rs: 60,000

Statutory limit = Rs: 10,00,000

Computation of taxable Amount of Gratuity

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

Illustration:

Mr. Athul, covered under the Payment of Gratuity Act, 1972, retires on 10th January, 2016 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) x 15/26 x 16 years = **48,000**

Actual amount of gratuity received = Rs: 1,00,000

Statutory limit = Rs:10,00,000

Therefore exempted amount = 48,000.

Illustration:
Compute Gross annual value:
Actual rent Rs: 24,000 p.a.
Fair rent Rs:28,000 p.a.
Standard rent Rs: 20,000 p.a.
Solution:
Gross Annual Value = ERV or Actual Rent Received for full year, whichever is higher. Here Rent Control Act is applicable.
FRV =Rs: 28,000 ; SRV = 20,000
Therefore, ERV = 20,000.
Actual Rent = 24,000
So, GAV = 24,000.

Illustration:
Calculate annual rental value from the following particulars for the assessment year 2018-19. 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:
Compute gross annual value for the AY 2018-19:
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.

Part A (ONE Mark)

Multiple Choice Questions

Online Examination

Part B

1. Give the meaning for allowance?
2. Mr.X was appointed as reader in Calcutta university in the scale of 12000-420-18000 on 1-9-2015 at Rs. 12,000 per month. Compute the salary income for the previous year 2018-19 if Salary is due on 1st of every month
3. What is meant by ARV?
4. How a standard rent is fixed?
5. Calculate the Annual Rental Value from the particulars given below

Actual Rent	Rs. 7,000 p.m.
FRV	Rs. 66,000 p.a
MRV	Rs. 60,000 p.a.
Standard Rent	Rs. 69,000 p.a.

During the previous year 2018-2019 assessee could not realize rent for two months

6. Give the meaning for provident fund?
7. What is meant by URPF?
8. From the particulars given below compute expected rental value

	Rs.
MRV	60,000
FRV	75,000
Real Rent	69,000
Standard Rent	not applicable

9. What is meant by SPF?
10. What is meant by FRV?
11. Explain the term annual value
12. What is meant by PCI?
13. Give the meaning of ERV?

14. Explain the term Public provident fund?
15. What is meant by MRV?
16. Write any four features of salary?
17. Define salary
18. Give the meaning of perks?
19. Write any two exempted allowance?
20. Write any two taxable perks?
21. Mr.R hired a house of 5 rooms at Rs.5000 p.m. He paid municipal tax Rs.6000 as municipal tax. He has sub-let 2 rooms at the rate of Rs.3000 p.m Compute income from sub-letting.
22. Compute Taxable House Rent Allowances from the information given below

Salary	Rs.11,000 p.m
D.A	Rs 700 p.m
CCA	Rs.600 p.m
HRA	Rs.1000 p.m
Commission on turnover achieved by him	Rs.5000

Situation : Living in his own house D.A enters into pay for retirement benefits

23. Mr.Vasan was allowed to use a air conditioner by employer. Its cost was Rs.18000. Calculate the value of benefit it it is given to employee on 1.4.2018.

***CIA- 3 X 2 = 6 (ANSWER ALL THE QUESTIONS)**
****ESE - 5 X 2 = 10 (ANSWER ALL THE QUESTIONS)**

Part C

1. Define annual value. Discuss the different rental value?
2. Mr. Mahesh is a production Manager of an industrial unit at Chennai. The particulars of a salary income are as under. Compute the taxable salary income of Mr. Mahesh

	Rs.
Basic salary	15000 p.m
Dearness Allowance	5000 p.m
Entertainment Allowance	1000 p.m
Medical Allowance	500 p.m
House Rent Allowance	4000 p.m
Rent paid for the house	5000 p.m
Car of 1.2 lt capacity provided by employer for private and official use.	
Employer meets expenses of car	
He and his employer contribute 15% of salary to RPF	
He had taken interest free loan of Rs.15000 to purchase refrigerator	

3. Compute Income from house property from the information given below

Municipal Rental value	Rs.18000
Rent received during the year	Rs.24000
Municipal Taxes (50% paid by the tenant)	Rs.1800 p.a.
Expenses incurred on repairs	
(a) By Owner	Rs.3000
(b) By tenant	Rs.3000
Collection charges	Rs.1000
Date of completion of house	1-06-1997

4. Discuss the characteristics of salary?
5. Mr.Z an employer of Ranchi (Population 15 lakhs) based company provide the following particulars of his salary income

	Rs.
Basic salary	12000 p.m
Profit Bonus	12000
Commission on turnover achieved by Mr.Z	42000
Entertainment Allowance	2000 p.m
Club facility	6000
Transport Allowance	1000 p.m

Free use of car of more than 1.6 lt. capacity for both personal and employment purpose, expenses are met by the employer Rent free house provided by employer, Lease rent paid by employer Rs.6000 p.m Free education facility for these children of the employee (Bill issued in the name of the employer) Rs.22500 Gas, water and electricity bill issued in the name of employee but paid by Employer Rs. 16800

Compute Income under the head salary for the assessment year 2019-2020

6. The following are the particulars of the income of Mr.Das for the previous year 2018-2019.
   1. Salary Rs. 12,500 p.m
   2. Contribution to RPF Rs. 1,610 p.m
   3. Employer contributes the same amount as the employee contributes the same amount as the employee contributes towards PF
   4. D.A. Rs. 300 p.m. it is not considered for computation of his retirement benefits
   5. Interest credited to PF @ 13% is Rs. 13,000
   6. Contribution to public provident fund is Rs. 9,000
   7. He is provided with a motor cycle which is used partly for personal and partly for employment purposes. The Assessing officer has determined the taxable value at Rs.250 p.m.
   8. His ration bill Rs.2,000 p.m. is paid by employer
   9. Premium of life policy is Rs. 12,000 on a policy of Rs. 1,00,000
   10. Deposited Rs. 4,800 in national saving scheme 1992
   11. Repayment of house building loan taken from HDFC (a govt., agency) . Rs 20,500 during the year

   Find out taxable salary income of Das for the assessment year 2019-2020

7. Mr. Pal, the owner of two houses, occupies one for his own residence and the other he lets to a tenant at a monthly rent of Rs. 500. The municipal valuation of the house occupied is Rs. 2,600 and of the other is Rs. 5,200. The municipal taxes of the two amounted to Rs. 600. The other expenses in respect of the two houses are as follows :

	Rs.
Insurance premium (for both houses)	1,200
Annual charge in respect of the house occupied	300
Ground rent for the house let	100
Repairs of the house occupied	700
Interest on loan taken to repair the two houses	400

Mr. Pal also had income from other sources amounting to Rs. 20,000 during the year. Calculate Mr. Pal's income from house property and total income.

8. Mr. Joseph is owner of a residential house construction completed on 31-10-2012 and it has been let out from 1-12-2012 for residential purposes. Its other particulars are :

	Rs.
Municipal valuation	15,000 p.a
Fair rent	18,000 p.a
Standard rent under Rent Control Act	1,500 p.m
Actual Rent	1,600 p.m
Municipal Taxes paid (including Rs. 1,500 paid by tenant)	2,500 p.a
Water and sewerage benefit tax levied by the State Government not paid yet as it is disputed in appeal	1,200 p.a
Fire Insurance payable	600
Legal charges for recovery of rent	1,500
Stamp duty and registration charges incurred in respect of lease agreement of the house	3,000

The unrealised rent for the year 2013-14 amounted to Rs. 16,000 out of which a deduction has been claimed for Rs. 12,000

During the year Rs. 14,000 were recovered from the defaulting tenant.

Compute income from house property for the previous year 2018-19.

9. From the particulars given below compute salary income of Mr. Balu.

	Rs.
Salary @ Rs. 40,000 p.m	4,80,000
Bonus equal to one month's salary	40,000
Entertainment allowance @ Rs. 5,000 p.m.	60,000
Free gas and water supply	5,000

He is provided with a rent free accommodation in Delhi owned by the employer the F.R.V. of which is Rs.10,000 p.m. (Population of Delhi is above 25 lakhs).

He is provided with the facility of a 1.8 lt cubic capacity car which he uses both for private and official purposes, expenses are met by the employer

He has engaged a domestic servant @ Rs. 1000 p.m. and his salary is being paid by his employer.

He is provided the facility of a free lunch in the office during lunch break valued at Rs. 100 per day for 250 days in the previous year.

The employer is maintaining a holiday home at Shimla and employee stayed there for 10 days free of cost. Its cost to the employer shall be Rs. 10,000.

During the year employee and his wife travelled by Air to Bombay to attend a family function and air tickets worth Rs. 24,000 were purchased by him through credit card provided to him by the employer.

Employer and employee both are contributing @ 14% in employee's recognized provident fund.

10. H. Mukherjee constructed a building on 30th June, 2004. It has two flats of equal dimensions. One Flat was let out to a tenant for residential purpose on a monthly rent of Rs. 1,000 and other flat was let out to a friend for residential purposes on a monthly rent of Rs.1,000. Sri Mukherjee paid the following expenses during the year ended 31st March, 2018

Municipal taxes @ 10% on municipal value of Rs. 20,000;

Fire Insurance Premium @ 2% of municipal value.

Rent Collection charges in case of 1st flat Rs. 600

Repairs and alterations Rs. 1,000.

Interior decoration charges Rs. 2,000.

Legal Charges for recovery of rent in case of 1st flat Rs. 1,000.

Interest on loan taken for renovation of 2nd flat Rs. 4,200.

Conservancy tax in addition to Municipal Tax Rs. 300.

Find out the income of Sh. H. Mukherjee under the head "Income from House Property" for the assessment year 2019-20.

***CIA- 3 X 8 = 24 (EITHER OR TYPE)**
****ESE- 5 X6 = 30 (EITHER OR TYPE)**

TAXATION					
UNIT II					
QUESTIONS	OPTION I	OPTION II	OPTION III	OPTION IV	ANSWER
Gratuity received by the retired government employees is -------	fully exempted	fully taxable	Partially taxable.	partially exempted	fully exempted
Salary received by a member of parliament is ----------	fully exempted	fully taxable	Partially taxable.	partially exempted	fully exempted
Sec -------------- of Income tax act 1961 deals with salary income	13-15	15-17	17-19	19-21	15-17
Salary includes ---------	Wages	Gratuity	profits in lieu of salary	wages, Gratuity and Profits in lieu of salary	wages, Gratuity and Profits in lieu of salary
If the employee has completed service of 16 years 6 months and 5 days the number of completed year shall be taken as ---------, if they are covered under payment of gratuity act	16 years	17 years	18 years	22 years	17 years
The maximum exemption of gratuity shall be ------------	Rs. 2,40,000	Rs.20,00,000	Rs.3,50,000	Rs.5,00,000	Rs.20,00,000
The maximum exemption in case of leave encashment shall be----------	Rs. 2,40,000	Rs.3,50,000	Rs.3,00,000	Rs.5,00,000	Rs.3,00,000
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
Employees contribution to statutory provident fund shall be -------------	fully exempted	fully taxable	Partially taxable.	partially exempted	fully exempted
Interest credited to provident fund shall be exempted upto --------	12%	7.50%	12.50%	9.50%	9.50%
Employers contribution to Recognized provident fund shall be exempted upto -----------	12%	7.50%	12.50%	9.50%	12%
Salary received by the UNO employees are ------------	fully exempted	fully taxable	Partially taxable.	partially exempted	fully exempted
Salary received by the Members of Parliament are taxable under the heads ---------	Salaries	House Property	Capital Gain	Other sources	Other sources
Salary received by the partners are taxable under the heads ---------	Salaries	House Property	Capital Gain	Profits and Gains	Profits and Gains
Salary received by the Members of Parliament are not taxable under the heads ---------	Salaries	House Property	Capital Gain	Salaries, House property and capital gain	Salaries, House property and capital gain
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	Perks	Provident fund	Allowances
________ is provided by the employer to the employee along with basic pay, determining on the basis of rising prices of commodities in general.	Dearness allowances	City compensatory allowances	Medical allowances	uniform allowances	Dearness allowances
__________ is given to compensate for the high cost of living in a city	Medical allowance	City compensatory allowance	Dearness allowances.	lunch allowances	City compensatory allowance
_________ is provided to cover the service of warden in the case of educational institutions	Wardenship allowance	Dearness allowance	Medical allowance	lunch 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 exempted	fully taxable	Partially taxable.	partially exempted	fully exempted
Children education allowance is exempted upto ---------- per child upto the maximum of two children.	Rs.100 pm	Rs.200 pm	Rs.300 pm	RS. 400 pm	Rs.100 pm
Hostel expenditure allowance is exempted upto ---------- per child upto the maximum of two children.	Rs.100 pm	Rs.200 pm	Rs.300 pm	Rs.400 pm	Rs.300 pm
The amount of exemption for running allowance is ---------	70% of such allowance or Rs 10,000 p.m which ever is less	70% of such allowance or Rs.6,000 p.m	fully exempted	Rs. 1500pm	70% of such allowance or Rs 10,000 p.m which ever is less
While computing salary income deduction are allowed under section ---------	16	18	19.	20	16
Salary due on last day of every month means salary will be received on the ----------	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, perquisites falls under section -----------	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
Provident fund governed by Provident fund Act 1925 is called as -----------	Statutory Provident fund	Unrecognized provident fund	Public provident fund.	Recognised provident fund	Statutory Provident fund
Tiffin allowance is ------------	fully exempted	fully taxable	Partially taxable.	partially exempted	fully taxable
Foreign allowance given to government employee posted abroad is ----------	fully exempted	fully taxable	Partially taxable.	partially exempted	fully exempted
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
When an employee staying in the rented house, House Rent allowance is --------	fully exempted	fully taxable	Partially taxable.	partially exempted	Partially taxable.
When an employee staying in his own house, House Rent allowance is --------	fully exempted	fully taxable	Partially taxable.	partially exempted	fully exempted
To encourage the savings among the employees the government has set up various kinds of ------	Provident fund	Allowances	Perquisites	Perks	Provident fund
There are --------- kinds of Provident fund	Five	Four	Three	Six	Four
Provident Fund recognised by the commissioner of income tax is -----------	PPF	RPF	SPF	URPF	RPF
Provident Fund not recognised by the commissioner of income tax is -----------	PPF	RPF	SPF	URPF	URPF
If house property was vacant for full year the annual rental value is taken as ----------	Nil	Rs.30,000	Rs.40,000	Rs.50,000	Nil
Compare MRV with FRV and whichever is higher value is compared with standard rent and whichever is less will be ---------------	ERV	Actual rent received	real rental value	MRV	ERV
Annual rental value for self-occupied house property is -------------	Nil	Rs.30,000	Rs.40,000	Rs.50,000	Nil

In house property income, the rate of standard deduction under section 24 (a) will be -------------	30% of NAV	30% of GAV	30 % of FRV	30% of MRV	30% of NAV
Interest for the period prior to the completion of house is called -----------	pre construction interest	post construction interest	construction interest	interest	pre construction interest
The sum for which the house property might reasonably be expected to be let from year to year is known as -----	Annual value	Realised rent	Expected rent	Municipal rent	Annual value
The two or more persons owns jointly one house is referred as--------------	owners	co-owners	tenant	House owner	co-owners
FBT -	Fringe Benefit Tax	Foreign Benefit Tax	Freight Benefit Tax	Foreign Bearer tax	Fringe Benefit Tax
While computing the value of rent free furnished house add --------	10 % of the furnished cost	20 % of the furnished cost	30 % of the furnished cost	40 % of the furnished cost	10 % of the furnished cost
Default in collection of rent from the tenants is termed as -------------	Real rent	Actual rent	Unrealised rent.	Fair rent	Unrealised rent.
In house property income the deduction under section 24 (b) will be -------------	30% of NAV	30% of GAV	Interest on loan	30% of MRV	Interest on loan
Income from sub letting is taxable under the heads ---------	Salaries	House Property	Capital Gain	Other sources	Other sources
Rent fixed under the Rent Control Act is ---------	Standard Rent	Fair Rent	Municipal Rent	Real Rent	Standard Rent
MRV Rs.15,000, FRV Rs.20,000, SR Rs. 18,000, ERV = ?	Rs.18,000	Rs.15,000,	Rs.20,000	Rs.35,000	Rs.18,000
Sumptuary Allowance is ____________	Fully Exempted	fully taxable	Partially taxable.	partially exempted	Fully Exempted
Allowance to teachers or professors from SAARC member state is --------	fully exempted	fully taxable	Partially taxable.	partially exempted	fully exempted
MRV Rs.55,000, FRV Rs.60,000, ERV = ?	Rs.55,000	Rs.60,000,	Rs.1,15,000	Rs.5,000	Rs.60,000,
MRV Rs.75,000, FRV Rs.90,000, Actual Rent Rs. 1,00,000, ARV = ?	Rs.75,000	Rs.90,000,	Rs.1,00,000	Rs.1,90,000	Rs.1,00,000
Allowances to member of union public service commission is ---------	fully exempted	fully taxable	Partially taxable.	partially exempted	fully exempted
MRV Rs.95,000, Actual Rent Rs. 1,00,000, ARV = ?	Rs.95,000	Rs.1,95,000,	Rs.1,00,000	Rs.5,000	Rs.1,00,000

UNIT-III – Profits and Gains of Business or Profession and Capital Gain

SYLLABUS

Computation of Profits and Gains of Business or Profession - Capital Gain - Long term Capital Gain - Short term Capital Gain - Exempted Capital Gain

PROFITS AND GAINS OF BUSINESS OR PROFESSSION

"Business" includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

The following income shall be chargeable to income-tax under the head "Profits and gains of business or profession"

- 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 to or received by,
  - 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 the agency or the modification of the terms and conditions relating thereto
  - Any person, for or in connection with the vesting in the Government, or in any corporation owned or controlled by the Government, under any law for the time being in force, of the management of any property or business

- Income derived by a trade, professional or similar association from specific services performed for its members
- Profits on sale of a license granted under the Imports (Control) Order, 1955, made under the Imports and Exports (Control) Act, 1947 (18 of 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 re-paid or re-payable 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 received by, a partner of a firm from such firm
    - 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
    - Of section 40, the income under this clause shall be adjusted to the extent of the amount not so allowed to be deducted
    - Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy.

The income referred to in section 28, i.e, the incomes chargeable as "Income from Business or Profession" shall be computed in accordance with the provisions contained in sections 30 to 43D. However, there are few more sections under this Chapter, viz., Sections 44 to 44DA (except sections 44AA, 44AB & 44C), which contain the computation completely within itself. Section 44C is a disallowance provision in the case non-residents. Section 44AA deals with maintenance of books and section 44AB deals with audit of accounts.

In summary, the sections relating to computation of business income can be grouped as under

1. Deductible Expenses - Sections 30 to 38 [except 37(2)].
2. Inadmissible Expenses - Sections 37(2), 40, 40A, 43B & 44-C.
3. Deemed Incomes - Sections 33AB, 33ABA, 33AC, 35A, 35ABB & 41.
4. Special Provisions - Sections 42 & 43D

5. Self-Coded Computations - Sections 44, 44A, 44AD, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB, 44-D & 44-DA.

The computation of income under the head "Profits and Gains of Business or Profession" depends on the particulars and information available.

If regular books of accounts are not maintained, then the computation would be as under Income (including Deemed Incomes) chargeable as income under this head xxx Less: Expenses deductible (net of disallowances) under this head xxx Profits and Gains of Business or Profession xxx

However, if regular books of accounts have been maintained and Profit and Loss Account has been prepared, then the computation would be as under:

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.

Profession

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

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

Te 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:-

o 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;

o 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;

o 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;

o Any person, for or in connection with the vesting in the Government, or in any corporation owned or controlled by the Government, under any law for the time being in force, of the management of any property or business;

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

Profits on sale of a license granted under the Imports (Control) Order, 1955, made under the Imports and Exports (Control) Act, 1947;

Cash assistance (by whatever name called), received or receivable by any person against exports under any scheme of the Government of India;

Any duty of customs or excise repaid or repayable as drawback to any person against exports under the Customs and Central Excise Duties Drawback Rules, 1971;

The value of any benefit or perquisite, whether cnvertible 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 received by, a partner of a firm from such firm.

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, license franchise or any likely to assist in the manufacture or processing of goods or provision of services.

Any sum whether received or receivable in cash or kind, on account of any capital asset (other than land or goodwill or financial instrument) being demolished , discarded or transferred , if the whole of the expenditure on such capital asset has been allowed as deduction under section 35AD. However, it is provided that where any interest, salary, bonus, commission or remuneration, by whatever name called, or any part thereof has not been allowed to be deducted under Clause (b) of section 40, the income under this clause shall be adjusted to the extent of the amount not so allowed to be deducted.

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

Rent of house property is taxable under the head “Income from house property". Even if the property constitutes stock in trade of recipient of rent or the recipient of rent is engaged in the business of letting properties on rent.

Deemed dividends on shares are taxable under the head "Income from other sources".

Winnings from lotteries, races etc. are taxable under the head "Income fom other sources".

General Principals governing the computation of taxable income under the head "profits and gains of business or profession:-

Business or profession should be carried on by the assessee. It is not the ownership of business which is important, but it is the person carrying on a business or profession, who is chargeable to tax.

Income from business or profession is chargeable to tax under this head only if the business or profession is carried on by the assessee at any time during the previous year. This income is taxable during the following assessment year.

Profits and gains of different business or profession carried on by the assessee are not separately chargeable to tax i.e. tax incidence arises on aggregate income from all businesses or professions carried on by the assessee. But, profits and loss of a speculative business are kept separately.

It is not only the legal ownership but also the beneficial ownership that has to be considered. Profits made by an assessee in winding up of a business or profession are not taxable, as no business is carried on in that case. However, such profits may be taxable as capital gains or as business income, if the process of winding up is such as to involve the carrying on of a trade.

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

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

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

Modes of book entries are generally not determinative of the question whether the assessee has earned any profit or loss.

The Income tax act is not concerned with the legality or illegality of business or profession. Hence, income of illegal business or profession is not exempt from tax.

Profits and losses of speculation business carried on by an assessee are kept separate.

Profits made in winding up of a business by the sale of assets in one lot are notable 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 scripts. Transactions not regarded as speculative transaction.

Deduction In Respect Of Losses Incidental to Business

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

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

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

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

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

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

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

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

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

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

2. Current repairs if the assessee bears the cost of repairs are allowed as deduction. However, Capital repairs incurred by the assessee are never allowed as deduction whether premises is occupied as a tenant or as an owner. Instead the capital repairs incurred shall be deemed to be a building and depreciation shall be claimed.

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

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

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

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

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

Depreciation [Section 32]

In respect of depreciation of-

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

(ii) know-how, patents, copyrights, trademarks, licenses, franchises or any other business or commercial rights of similar nature, being intangible assets acquired on or after the 1st day of April, 1998, owned, wholly or partly, by the assessee and used for the purposes of the business or profession Tea Development account, coffee development account and rubber development account (section 33AB) Certain deduction is allowed to assessee growing and manufacturing tea or coffee or rubber in India. For this purpose, the assessee is required to

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

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

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

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

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

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

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

(1) Where an assessee is carrying on business consisting of the prospecting for, or extraction or production of, petroleum or natural gas or both in India and in relation to which the Central Government has entered into an agreement with such assessee for such business, has before the end of the previous year—

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

(b) deposited any amount in an account (hereafter in this section referred to as the Site

Restoration Account) opened by the assessee.

Expenditure on scientific research (section 35)

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

(a) Extension of business;

(b) Providing medical facilities to the employees.

Deduction under this section is allowed in two ways

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

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

(A) When assessee takes up scientific research on his own: When assessee carries on any scientific research, the expenditure incurred by him for such may be

(a) Revenue expenditure or

(b) Capital expenditure.

The treatment of above is as follows.

(a) Revenue expenditure:

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

(b) Capital expenditure:

Any Capital expenditure incurred by the assessee is deductible 100% in the year it is incurred.

(4) Amount contributed to National Laboratory [Section 35(2AA)]:

Any 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, licenses, 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.

Rates of Depreciation In Case Of Block of Assets

Tangible Assets Rate

(I) Building:

(1)Residential Buildings except hotel and boarding houses %

(2)Non-residential Buildings [office, factory, godown, hotels, 10% boarding houses but other than (1) above and (3)(i)below]

(3) (i) Buildings for installing Plant and Machinery forming part of water supply or water treatment system for infrastructure business u/s 80-India IA (4)(i). (ii) Purely temporary erections such as wooden structures 100%

(II) Furniture And Fittings:

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

(III) Plant And Machinery

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

(6) Ships and vessels 20%

(7) Motor buses, Lorries and taxis used in business of running on hire; Moulds used in rubber and
plastic goods factories; Plant & Machinery used in semi-conductor industry including circuits; ….30%

(8) Aeroplane- Aeroengines; Life-saving Medical Equipments 40%

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

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

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

(12) (i) (a) Books (annual publications) owned by assessee carrying on profession; and (b) Books owned by assessee carrying on business in running lending libraries (ii) Plant and Machinery in water supply and treatment system for infrastructure u/s 80IA(4)(i); Wooden part in artificial silk \ manufacturing Plant & Machinery; Cinematograph films-Bulbs of studio lights; Wooden Match frames in Match factories; Mines and Quarries-rubs, ropes,

lamps, pipes; Salt works - Clay and salt pans, etc.; Air-pollution, Water-pollution, Solid waste control equipments and Solid waste recycling system. 100%

Intangible Assets

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

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

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

WDV in case of Block of Assets: Written down Value of the block of assets as on 1st day of previous year

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

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

WDV of block of assets eligible for depreciation

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

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

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

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

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

COMPUTATION OF BUSINESS INCOME

Net Profit as per Profit and Loss Account	xxx
Add : Inadmissible Expenses debited to Profit and Loss Account	xxx
Deemed Incomes not credited to Profit and Loss Account	xxx

		xxx
Less: Deductible Expenses not debited to Profit and Loss Account		xxx
Incomes chargeable under other heads credited to Profit & Loss A/c		xxx
		xxx
Profits and Gains of Business or Profession		xxx

COMPUTATION OF PROFESSIONAL INCOME

Professional Receipt	
Audit Fee	xxxx
Consultancy Fee	xxxx
Accountancy work	xxxx
	------
	xxxx
Less: Professional Expenses	
Rent	xxxx
Electricity Charges	xxxx
Telephone Charges	xxxx
Stipend Fees	xxxx
	------
	xxxx

	Xxxx

INCOME FROM CAPITAL GAIN

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—

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): 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 are termed as a short-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.

Transfer of capital assets results in capital gains. A Capital asset is defined under section 2(14) of the I.T. Act, 1961 as property of any kind held by an assessee such as real estate, equity shares, bonds, jewellery, paintings, art etc. but does not include some items like any stock-in-trade for businesses and personal effects. Transfer has been defined under section 2(47) to include sale, exchange, relinquishment of asset, extinguishment of rights in an asset, etc. Certain transactions are not regarded as 'Transfer' under section 47.

Any Income derived from a Capital asset movable or immovable is taxable under the head Capital Gains under Income Tax Act 1961. The Capital Gains have been divided in two parts under Income Tax Act 1961. One is short term capital gain and other is long term capital gain. 1**.Short Term Capital Gains** : If any taxpayer has sold a Capital asset within 24 months and Shares or securities within 12 months of its purchase then the gain arising out of its sales after deducting there from the expenses of sale(Commission etc) and the cost of acquisition and improvement is treated as short term capital gain and is included in the income of the taxpayer. The deduction u/s 80C to 80U can be taken from the income from short term capital gain apart from the short term capital gain u/s111A

Taxability of short term capital gains: Section 111A of the Income tax Act provides that those equity shares or equity oriented funds which have been sold in a stock exchange and securities transaction tax is chargeable on such transaction of sale then the short term capital gain arising from such transaction will be chargeable to tax @10% upto assessment year 2008-09 and 15% from assessment year 2009-10 onwards.

The short term capital gains other than those u/s 111A shall be added to the income of the assessee and no such benefit is available on short term capital gains arising in other cases and they will be taxed normally at slab rates applicable to the assessee. If an assessee does the business of selling and purchasing shares he cannot take advantage of section 111A or section 10(38). In this case income will be treated as business income.

Capital gains in case of depreciable assets : According to section 50 of Income tax act if an assessee has sold a capital asset forming part of block of assets (building, machinery etc) on which the depreciation has been allowed under Income Tax Act, the income arising from such capital asset is treated as short term capital gain.

Where some assets are left in block of assets: If a part of such capital asset forming part of a block of asset has been sold and after deducting the net consideration received from sale of such asset from the written down value of the block of such asset the written down value comes to NIL then the gain arising shall be treated as short term capital gain and in such case where written down value has become NIL no depreciation shall be available on such block of asset even if some assets are physically left in the block of assets.

When no assets are left in block of assets: If the whole of the capital assets forming part of a block of assets have been sold during a year and the assessee has suffered a loss after deducting the net sale consideration from the written down value of the block of assets then such loss shall be treated as short term capital loss and no depreciation shall be allowed from such block of assets.

It was decided by Chandigarh tribunal in (2004) 3 S.O.T. 521/ 83 T.T.J. 1057 if the whole of capital assets in a block have been sold in a year and some gain arises after the sale such gain shall not be treated as short term capital gain if some new asset has been purchased within the same year in the same block of assets and the total value of new and old capital assets in the same block is more than the sale consideration of the assets sold, since the block of asset does not cease to exist in such case as is required u/s 50(2).

Short term capital gain where land & building are sold together: Some times it happens that in a block of assets namely land & building, the whole of land & building is sold together. In such cases the capital gain on land and building should be calculated separately.

The Supreme Court has held in (1967) 65ITR 377 that depreciation is available on the value of building and not on the value of plot. Considering the above decision of Supreme Court, the Rajasthan High court in (1993)201 ITR 442 has held that Plot and building are different assets. If the assessee has purchased plot more than 3 years back and constructed building on it less than 3 years back then the gain arising on sale of plot shall be long term capital gain and the benefit of indexation shall be given on it whereas the gain arising on sale of building shall be short term capital gain and will be added to the income of the assessee. Therefore both should be calculated separately.

Capital asset transferred by the partner to the partnership firm: As per section 45(3) of the Income Tax Act 1961 if any partner in a firm transfers his asset to the firm then the capital gain on such asset as arising to the partner shall be calculated by presuming the sale value of such asset as is shown in the books of accounts of the firm and not the market value of the asset. whether such gain is treated as long term or short term will be decided as below:

a) If the depreciation has been claimed on the asset transferred to the firm then in view of section 50(2) the gain arising there from will be treated as short term capital gain.

b) If the partner has been the owner of the asset for more than 36 months and no depreciation has been claimed on it then the gain arising from such asset shall be treated as long term capital gain.

Capital gain in case of Dissolution of a Firm: As per section 45(4) of the Income Tax Act where any partnership firm or AOP or BOI is dissolved and the Capital assets of the such firm or AOP or BOI are transferred by way of distribution of assets to the partners at the time of Dissolution in such case the gain arising from such transfer to the partners will be treated as capital gain and the firm will be liable for paying tax on it in the year of distribution of the assets. For the purpose of section 48 the fair market value of the asset on the date of such transfer shall be deemed to be the full value of the consideration received or accruing as a result of the transfer.

2. Long Term Capital Gain: A Capital Asset held for more than 24 months and 12 months in case of shares or securities is a long term capital asset and the gain arising there from is a long term capital gain. Long term capital gains are arrived at after deducting from the net sale consideration of the long term capital asset the indexed cost of acquisition and the indexed cost of improvement of the asset. The Central govt notifies cost inflation index for every year. The indexed cost of acquisition is calculated by multiplying the actual cost of acquisition with C.I.I of the year in which the capital asset is sold and divided by C.I.I of the year of purchase of capital asset. Similarly the indexed cost of improvement can be calculated by using the C.I.I of the year in which the capital asset is improved. Where the capital asset was acquired before the year 1981 then the cost of acquisition shall be the fair market value or the actual cost of its acquisition which ever is higher. The Fair market value of a capital asset can be known by the valuation of the registered valuer.

The cost inflation index table as notified is here below:

Cost Inflation Index Notified by the GOVTs

Financial Year	CII
2001-02	100
2002-03	105
2003-04	109
2004-05	113
2005-06	117
2006-07	122
2007-08	129
2008-09	137
2009-10	148
2010-11	167
2011-12	184
2012-13	200
2013-14	220
2014-15	240
2015-16	254
2016-17	264
2017-18	272
2018 – 19	280

If a capital asset has been subjected to depreciation then no indexation benefit is allowed on sale of such capital asset in view of section 50(2) as discussed above.

Capital gain from Plot and building should be separately calculated: As discussed above plot and building are separate assets and the capital gain on above should be calculated separately. If the plot is purchased more than 3 years back and building has been constructed within 3 years the capital gain on plot will be considered as long term and the capital gain on building will be treated as short term capital gain.

Taxation of Long term capital gains: The long term capital gains are taxed @ 20% after the benefit of indexation as discussed above. No deduction is allowed from the long term capital gains from section 80C to 80U. But in case of individual and HUF where the income is below the basic exempted limit the shortage in basic exemption limit is adjusted against the long term capital gains.

Section 112(1) provides that any capital gain arising from a long term capital asset being the listed securities which are sold outside the stock exchange the long term capital gain shall be calculated on such securities as below:

a) Tax arrived at @ 20% on such long term capital gain after indexation u/s 48 or
b) Tax arrived at @ 10 % on such long term capital gain without indexation
Whichever is less.

The long term capital gain on equity shares or units of equity oriented mutual fund which are sold in the stock exchange and on which securities transaction tax is paid, is exempt u/s 10(38).

Section 50C: Section 50C has been introduced with effect from 01-04-2003 and is a very important section while calculating capital gain on land & building. Section 50C provides that Where the consideration received or accruing as a result of the transfer by an assessee of a capital asset, being land or building or both, is less than the value adopted or assessed or assessable by stamp valuation authority) for the purpose of payment of stamp duty in respect of such transfer, the value so adopted or assessed or assessable shall, for the purposes of section 48, be deemed to be the full value of the consideration received or accruing as a result of such transfer.

It means that the capital gain will be calculated by considering the sale value of the capital asset as equal to the value adopted or assessed by the stamp valuation authority for that capital asset if the actual sale value is less than the value assessed by stamp valuation authority.

If the assessee claims that the value adopted by the stamp valuation authority exceeds the fair market value then the assessing officer may refer to the valuation officer for valuation of the fair market value of the asset. If the fair market value declared by the valuer is more than the value adopted or assessed or assessable by the stamp valuation authority, the value so adopted assessed or assessable by the stamp valuation authority will be taken as full value of consideration of the capital asset.

After the adding of word assessable u/s 50C in 2009 now it has become clear that even those immovable properties in which no sale deed is entered into and which have been sold on a full and final agreement will be within the ambit of section 50C.

Cost of Acquisition

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

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

1. On any distribution of asset on the total or partial partition of a HUF or
2. Under gift or will
3. By succession , inheritance or devolution or
4. On any distribution of assets on the dissolution of a firm, body of individuals or other association of persons at any time before 1-04-1987. Or
5. On Any distribution of asset on the liquidation of a company or
6. Under a transfer to a revocable or an irrevocable trust or
7. On transfer by a parent company to its Indian subsidiary company which is wholly owned by a parent company or
8. On the transfer by a subsidiary company to its Indian holding company

which owns whole of the share capital of the subsidiary company or

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

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

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

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

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

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

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

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

Cost of share or security

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

3. Cost of bonus shares

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

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

(b) In any other case- nil

4. Cost of acquisition of goodwill

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

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

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

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

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

Cost of Improvement

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

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

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.

Exemptions from long term capital gain:

Section	**Asset**	**Assessee**	**Holding Period of Original Assets**	**Whether Reinvestment Necessary — Time Limit**	**Other Conditions/Incidents**	**Quantum**
54	Residential House Property	Individual HUF	3 years	Yes — In Residential House, within 1 year before, or 2 years after the date of transfer (if purchased) or 3 years after the date of transfer (if constructed).**		The amount of gains, or the cost of new asset, whichever is lower
54B	Agricultural Land	Individual	Use for 2 years	Yes — In Agricultural Land, within 2 years after the date of transfer.	Must have been used by assessee or his parents for agricultural purposes See Notes 1, 2 and 10	As above
54D	Industrial Land or Building or any right therein	Any Assessee	Use for 2 years	Yes — In Industrial Land, Building, or any right therein within 3 years after the date of transfer.	Must have been compulsorily acquired	As above

54EC	Any Long-term Capital Asset (LTCA)	Any Assessee	Shares, Listed Securities, Units of UTI/Mutual Fund covered u/s. 10(23D) :1 year Others : 3 years	Yes — Whole or any part of capital gain in bonds redeemable after 3 years and issued on or after 1-4-2006 by NHAI or REC and notified by the Govt. – within 6 months from the date of transfer.		The amount of gain or the cost of new asset whichever is lower subject to Rs. 50,00,000 per assessee during any financial year for investments made on or after 1-4-2007. Also investment in bonds notified before 1-4-2007 would be subject to conditions laid down in notification including limiting condi-tions (i.e., Rs. 50 lakhs per assessee)
54ED	LTCA being listed securities or units	— do —	Listed Securities or units of UTI/Mutual Fund covered u/s. 10(23D) : 1 year	Yes — Within six months from the date of transfer in acquiring eligible issue of capital	exemption is available only in respect of the assets transferred before 1-4-2006	— do —
54F	Any Capital Asset (not being a	Individual HUF	Shares, Listed, Securities,	Yes — In Residential House, within 1		If the cost of the specified asset is not

	residential house)		Units of UTI/Mutual Fund covered u/s. 10(23D) : 1 year Others : 3 years	year before, or 2 years after the date of transfer (if purchased), or 3 years after the date of transfer (if constructed).**		less than Net Consideration of the original asset, the whole of the gains. If the cost of the specified asset is less than the Net Consider-ation, the proportionate amount of the gains.
54G	Industrial land or building or plant or machinery	Any Assessee	—	Yes— In similar assets and expenses on shifting of original asset, within 1 year before, or 3 years after the date of transfer.		The amount of gains, or the aggregate cost of new asset and shifting expenses, whichever is lower.
54GA	Industrial land or building or plant or machinery	Any Assessee	—	Yes — In similar assets and expenses on shifting of original assets to a Special Economic Zone – within 1 year before or 3 years after the date of transfer		The amount of gains, or the aggregate cost of new asset and shifting expenses, whichever is lower
115F	‘Foreign Exchange Asset’ (See Note 8)	Non-Resident Indian	Shares, Listed Securities, Units of UTI/Mutual Fund covered u/s.	Yes— In ‘Specified Assets’ (See Note 9) or Specified Savings Certificates of		Same as u/s. 54F above.

			10(23D) : 1 year Others : 3 years	Central Government, within 6 months after the date of transfer		

For tax purposes, there are two types of capital assets: Long term and short term. Long term asset are held by a person for three years except in case of shares or mutual funds which becomes long term just after one year of holding. Sale of such long term assets gives rise to long term capital gains

b) Any profits or gains arising from the transfer 737 of a capital asset effected in the previous year shall, save as otherwise provided in sections 54, 54B, 54D, 54E, 54EA, 54EB, 54F , 54G and 54H be chargeable to income-tax under the head "Capital gains", and shall be deemed to be the income of the previous year in which the transfer took place.

c) Notwithstanding anything contained in sub-section (1), where any person receives at any time during any previous year any money or other assets under an insurance from an insurer on account of damage to, or destruction of, any capital asset, as a result of –

(1) Flood, typhoon, hurricane, cyclone, earthquake or other convulsion of nature (or)

(2) Riot or civil disturbance (or)

(3) Accidental fire or explosion (or)

(4) Action by an enemy or action taken in combating an enemy (whether with or without a declaration of war), then, any profits or gains arising from receipt of such money or other assets shall be chargeable to income-tax under the head "Capital gains" and shall be deemed to be the income of such person of the previous year in which such money or other asset was received and for the purposes of section 48, value of any money or the fair market value of other assets on the date of such receipt shall be deemed to be the full value of the consideration received or accruing as a result of the transfer of such capital asset.

MEANING OF "ADJUSTED", "COST OF IMPROVEMENT" AND "COST OF ACQUISITION".

For the purposes of sections 48 and 49, - (a) "Cost of any improvement",

- In relation to a capital asset being goodwill of a business or a right to manufacture, produce or process any article or thing shall be taken to be nil; and
- In relation to any other capital asset,
  - Where the capital asset became the property of the previous owner 852 or the assessee before the 1st day of April, 1981, means all expenditure of a capital nature incurred in making any additions or alterations to the capital asset on or after the said date by the previous owner or the assessee, and
  - In any other case, means all expenditure of a capital nature incurred in making any additions or alterations to the capital asset by the assessee after it became his property, and, where the capital asset became the property of the assessee by any of the modes specified in sub-section (1) of section 49, by the previous owner, but does not include any expenditure which is deductible in computing the income chargeable under the head "Interest on securities", 853c "Income from house property", "Profits and gains of business or profession", or "Income from other sources", and the expression "improvement" shall be construed accordingly.

COMPUTATION OF SHORT TERM CAPITAL GAIN

Sale Price	xxxx
Less:	
Purchase Price	xxxx

Short Term Capital Gain	**xxx**

COMPUTATION OF LONG TERM CAPITAL GAIN

Sale Price	xxxx
Less:	
Expenses on sales	xxxx

Net consideration	**xxxx**

Less:		
Indexed cost of acquisation	xxxx	
		------
		xxxx
Less:		
Indexed cost of improvement	xxxx	

Long Term Capital Gain		**xxxx**

PROFITS AND GAINS OF BUSINESS OR PROFESSION

llustration: 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 depreciation	5000	39,000
Business Profit		3,64,000

Illustration:

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

PROFIT AND LOSS ACCOUNT

To Salaries	14,600	By G/p	1,35,000
To household expense	2000		
To income tax	900		
To Gifts	900		
To business expense	2,200		
To LIC premium	2,100		
To bad debt reserve	800		
To N/P	1,11,500		
	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
Income from business			1,18,200

Illustration:

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	
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 ¾)	4,350	36,700
Income from Profession			37,510

Part A (ONE Mark)

Multiple Choice Questions

Online Examination

Part B

1. Define business
2. Define profession
3. Define capital gain
4. What is meant by short term capital asset?
5. Give the meaning for long term capital gain?
6. Give the meaning for capital asset?
7. What is the rate of depreciation for book and patent rights?
8. To what extent following are allowed as deduction in computing the income of business carried on by Mr.A

   a. Entertainment expenditure incurred during the previous year ending 31-3-2019 is Rs. 50,000

   b. Daily allowance given to Mr. Mohit an employee is at the rate of Rs. 2,000 per day. He was on tour for 5 days and was given Rs. 10,000 as daily allowance during previous year 2018-19
9. From the information given below find out how much amount can be debited during the previous year 2018 – 2019.

Expenses	**Amount & Date of Payment**	**Due Date**
Excise Duty	Rs.1,40,000 paid on 10.01.2018	31.7.2019

10. Write the formula for indexing cost of acquisition of long term capital asset, when it is acquired before 1.4.2001 under gift, will or partition?

11. From the information given below find out how much amount can be debited during the previous year 2018 – 2019.

Expenses	**Amount & Date of Payment**	**Due Date**
Interest to Financial Corporation	Rs.1,00,000 on 1.6.2018 Rs.1.00.000 on 31.03.2019	31.07.2019

12.What is meant by short term capital asset?

***CIA- 3 X 2 = 6 (ANSWER ALL THE QUESTIONS)**
****ESE - 5 X 2 = 10 (ANSWER ALL THE QUESTIONS)**

Part C

1. The following is the Profit and Loss Account of Mr.Pal for the year ended 31-3- 2019. Compute the taxable business income for the assessment year 2019-2020

	Rs.		Rs.
To opening stock	15000	By sales	80000
To Purchases	40000	By closing stock	20000
To Wages	20000	By Gift from father	18000
To Rent	6000	By sale of motor car	9000
To Repair to Motor car	3000	By Income tax refund	3000
To Wealth tax paid	3000		
To Medical expenses	3000		
To General expenses	10000		
To Depreciation on motor car	3000		
To Advance Income tax paid	1000		
To Net profit	26000		
	130000		130000

Following further information is given

Mr.Pal carries on his business from rented premises at Delhi, half of which is used as his residence.

Mr.Pal bought a car during the year for Rs.20000. He charged depreciation on the value of the car. The car was sold during the year for Rs.9000.The use of the car was 3/4th for the business and 1/4th for personal purposed.

Medical expenses were incurred curing sickness of Mr.Pal for his treatment

Wages include Rs.250 per month on account of Mr.Pal's driver for 10 months

2. Following is the profits and loss account of a merchant for the year ending 31.03.2019

	Rs.		Rs.
Office salary	6, 500	Gross profit	36, 750
Bad debts written off	1, 700	Commission	1, 250
Provision for bad debts	3, 000	Discounts	500
Advertisement	3, 800	Sundry Receipts	200
Fire insurance premium (HP)	550	Rent of building	3, 600
General expenses	2, 750	Profit on sale land	3, 000
Depreciation	1, 200		
Interest on capital	2, 000		
Interest on bank loan (due)	1, 300		
Net profit	22, 500		
	45,300		45, 300

--------- ---------

Compute the taxable profits from business. The amount of depreciation is Rs. 1,000. Interest on bank loan was paid on 1.08.2019. Due date of filing of return is 31.07.2019.

3. Explain the admissible and inadmissible expenses while computing profits and gains of business or profession?
4. Discuss the exemption that can be claimed while computing long term capital gain?
5. From the following particulars, compute the business income of Mr. S. Rajesh

	Rs.		Rs.
To Salaries	90,000	By Gross Profit	3,50,000
To Rent and Taxes	20,000	By Dividend	4,000
To Service Charges	4,000	By Bad debts recovered	
To Legal expenses	5,000	(allowed earlier)	4,400
To Reserve for Income-tax	6,000	By Interest from Post	
To Depreciation	12,000	Office Savings Bank	1,200
To Expenses on acquisition of patent rights	56,000		
To Office expenses	42,000		
To Contribution to R.P.F	12,000		
To Bad Debts	4,500		
To Donation to N.D.F	2,500		
To Net Profit	1,05,600		
	3,59,600		3,59,600

Notes:

1. Legal expenses include Rs. 2,000 incurred by assessee for defending a case for damages for breach of contract which was decided in favour of assessee
2. Depreciation of the year on assets other than patent rights is Rs. 16,900

3. Contribution to RPF due on 31-3-2019 Rs. 2,000

6. Mr. Dev purchased a house in Udipi in 1996 for Rs. 1,00,000. He incurred the following expenses for the improvement of the house. Renovation of the house Rs. 25,000 and additions of 2 rooms after one year Rs. 50,000. The F.M.V of the house on 1-4-2001 was Rs.1,40,000. He sold the house in May 2018 for Rs. 14,00,000. He purchased another house property within 2 months for Rs. 3,00,000 and invested in Capital Gains Account Scheme Rs. 50,000. Calculate taxable capital gain for the previous year 2017-18. Cost Inflation Index for 2001-2002 was 100 for 2018-19 is 280

7. Mr. S. Krishna received a gift of a house in Nov. 1997 from Mr. K. Hegde who had purchased it in Nov. 1977 for Rs. 6,30,000. Mr. K. Hegde renovated the house in March 1980 at a cost of Rs. 2,70,000. Its FMV on 1-4-2001 was Rs. 12,60,000. In 1979-80 Mr. Hegde had agreed to sell the house and had received Rs.1,00,000 as advance money. The sale could not materialize and advance money was forfeited. The house was further renovated in 1987-88 [C.I.I = 150] at a cost of Rs. 1,00,000. Mr. Krishna sold the house in December 2018 for Rs. 40,60,000 and paid Rs. 60,000 as brokerage. Compute his taxable capital gain if C.I.I for 2001-02 was 100, and for 2018-19 it is 280

8. Mr. D.D Dewan & Company are Chartered Accountants in Delhi. They have submitted the following Income and Expenditure Account for the year. Compute the income from profession.

	Rs.		Rs.
To Drawings	48,000	By Audit fees	2,24,000
To Office rent	42,000	ByFinancial Consultancy	98,000
To Telephone installation charges under O.Y.T. Scheme	15,000	By Dividends from an Indian company (Gross)	6,000
To Electricity Bill	4,200	By Dividend on units of UTI	4,000
To Salary of Staff	66,000	By Accountancy works	24,000
To Charities	1,200		
To Gifts given to relatives	9,600		
To Car Expenses	21,000		
To Subscription for Journals	2,500		
To Institute fee	1,200		
To Stipends given to trainees	12,000		
To Net Income	1,33,300		
	3,56,000		3,56,000

Notes:

1. Depreciation of car during the year amounts to Rs.5000
2. 30 % of the time car is used for personal purposes.

9. From the following Profit and Loss Account of a manufacturer, calculate the Business Income for the year ending on 31st March 2019.

	Rs.		Rs.
Salaries to employees	95,000	Gross Profit	3,80,000
Advertisement expenses (in cash)	24,000	Interest on securities	14,000

General expenses	16,000	Income from house property	25,000
Entertainment expenses	22,000	Bad debts recovered (allowed earlier)	12,000
Bad debts	1,500		
Drawings by the proprietor	24,000		
Sales-tax (due and paid on 1-7-2019)	6,000		
Interest on proprietor's capital	7,000		
Repairs	2,500		
Rent	21,000		
Legal expenses	5,000		
Depreciation	15,000		
Bonus (due)	6,000		
Bonus to the proprietor	4,000		
Car purchased	72,000		
Expenses on car during the year	12,000		
Donations	2,000		
Provisions for bad debts	6,000		
Net Profit	90,000		
	4,31,000		4,31,000

From the examination of books of accounts, the following other information's are available:

a. Advertisement expenses were spent on insertions in news papers,
b. Rs. 3,000 were spent on purchase of land and included in legal expenses.
c. Half of the repair expenses were on let-out building
d. Depreciation allowable on all assets including car is Rs. 14,400
e. Bonus was paid to employees on 30-6-2012 and date of filing of return is 31-7-2019.

10. From the following statement Compute the Professional Income of Dr.Kapoor,if accounts are maintained on Mercantile system

	Rs.		**Rs.**
To Dispensary Rent	36000	By Vesting Fee	45000
To Electricity charges	6000	By Consultation Fees	125000
To Telephone charges	6000	By Sale of Medicine	72000
To Salary to Nurses	36000	By Dividend	5000
To Depreciation on surgical equipment	6000		
To Purchase of Medicine	36000		
To Depreciation on X ray Machine	4000		
To Income Tax	5500		
To Donation	4000		
To Motor car expenses	9000		

To Depreciation on car	4800	
To Net Income	93100	
	---------	---------
	247000	274000
	----------	---------

Note:

1. Electricity charges include domestic bill of Rs.2500
2. Half of the motor car expenses for professional use
3. Telephone expenses include 40% for personal use
4. Opening stock of the medicine was Rs.6000 and closing stock was Rs.4000

***CIA- 3 X 8 = 24 (EITHER OR TYPE)**
****ESE- 5 X6 = 30 (EITHER OR TYPE)**

TAXATION					
UNIT III					
QUESTIONS	OPTION I	OPTION II	OPTION III	OPTION IV	ANSWER
Any trade, commerce, manufacture or any adventure in the nature of trade commerce manufactured is defined as ---------------	Business	Profession	Consignment	Joint venture	Business
Profits and gains of business or profession is chargeable u/s ----------- of Income tax act.	24-28	28-44	30-48	42-50	28-44
------------ refers to those activities where the livelihood is earned by the person through their intellectual or manual skill.	Business	Trade.	Profession	Joint venture	Profession
__________ is a profession	Trader	Venture	Doctor	Employer	Doctor
The accounting system under which any income which relates to the current year whether it is received or not is taken into consideration for computing business profit is called as ------------	Mercantile system	cash system	Credit system	Debit system	Mercantile 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	cash system
Expenditure incurred for acquiring fixed assets is -------	Capital expenditure	Revenue expenditure	Deferred revenue expenditure	Capital Receipt	Capital expenditure
Expenditure incurred to carry out the regular activities is ---------	Capital expenditure	Revenue expenditure	Deferred revenue expenditure	Capital Receipt	Revenue expenditure
Expenses allowed as deduction for the purpose of computation of income from business or profession are ------------	Admissible expenses	Inadmissible expenses	Fixed Expenses	Variable Expenses	Admissible expenses
Expenses not allowed as deduction for the purpose of computation of income from business or profession ----	Admissible expenses	Inadmissible expenses	Fixed Expenses	Variable Expenses	Inadmissible expenses
Income tax, wealth tax and advance income tax are ---------	disallowed expenses	Allowed expenses	Deductions	rebate	disallowed expenses
Cultivation expenses are ----------	disallowed expenses	Allowed expenses	Deductions	rebate	disallowed expenses
Expenditure incurred for acquiring know-how and patents shall qualify for depreciation at the rate of -----------	20%	25%	30%	40%	25%
Any payment exceeding Rs. 20,000 is made otherwise than through a crossed cheque or demand draft ------------- of such amount is to be disallowed as deduction.	100%	30%	40%	50%	100%
While computing business income speculation loss is ------------	Allowed expenditure	Disallowed expenditure	Not an expenditure	Partly allowed	Disallowed expenditure
Patent right is --------	Tangible asset	Intangible asset	Fictitious asset	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	Profits and gains of business or profession
Technical know how is --------	Tangible asset	Intangible asset	Fictituous asset	Fixed asset	Intangible asset
Depreciation is allowed on professional books -----------	60%	50%	25%	40%	40%
Consultancy fee received by a lawyer is ----------	Taxable	Not taxable	Partly taxable	exempted	Taxable
All those assets to which one rate of depreciation is applicable are known as ---------	Block of assets	Fixed asset	Fictituous asset	Movable asset	Block of assets
The actual cost of acquisition of asset minus depreciation equal to -------	WDV	Annuity value	Block of assets	exempted assets	WDV
Balance amount of depreciation not deductible due to insufficiency of income during any particular year is called ------------	Absorbed depreciation	unabsorbed depreciation	Total depreciation	depreciation	unabsorbed depreciation
For a doctor, gift from patients are -------------	Taxable	Not taxable	Partly taxable	exempted	Taxable
While computing business income , all personal expenses are ------------	allowed expenses	disallowed expenses	deduction	rebate	disallowed expenses
Amount given to university for research allowed at the rate of ----------	100%	125%	150%	160%	125%
Rate of depreciation for car is ----------------	25%	15%	50%	30%	15%
Rate of depreciation for surgical equipment is ----------------	25%	15%	50%	30%	15%
Rate of depreciation on neon sign board is at the rate of -------	10%	25%	20%	40%	25%
Under the head Business or Profession, the method of accounting which an assessee can follow shall be ------	Mercantile system only	Cash system only	Mercantile or cash system	Hybrid system	Mercantile or cash system
40 % of rate of depreciation is allowed for __________	Book	Car	Surgical Equipments	Building	Book

For a Lawyer, gift from clients are -------------	Taxable	Not taxable	Partly taxable	exempted	Taxable
For an Auditor, gift from clients are -------------	Taxable	Not taxable	Partly taxable	exempted	Taxable
Advertisement expenses is ----------- expenses while computing business income	Taxable	Not taxable	Allowable	Disallowed	Allowable
Bonus paid to employees is ----------- expenses while computing business income	Taxable	Not taxable	Allowable	Disallowed	Allowable
----------- is professional receipt of a Doctor	Salary	Sale of medicine	House Property	Capital Gain	Sale of medicine
----------- is professional receipt of a Doctor	Salary	Operation charges	House Property	Capital Gain	Operation charges
Rate of depreciation for X - Ray machine is ----------------	25%	15%	50%	30%	15%
----------- is professional receipt of a Lawyer	Salary	Sale of stamp paper	House Property	Capital Gain	Sale of stamp paper
----------- is professional expenses of a Doctor	Purchase of Medicine	Sale of Medicine	Opening stock of medicine	Closing stock of medicine	Purchase of Medicine
----------- is professional expenses of a Lawyer	Purchase of stamp paper	Sale of stamp paper	Stipend to Juniors	Purchase of stamp paper and Sripend to Juniors	Purchase of stamp paper and Sripend to Juniors
----------- is professional expenses of a Auditor	Purchase of stamp paper	Sale of stamp paper	Stipend to Trainees	Closing stock of medicine	Stipend to Trainees
Cost of Goods Sold =	Opening stock + Closing Stock	Opening stock + Purchases	Opening stock + Purchases - Closing Stock	Opening stock - Purchases + Closing Stock	Opening stock + Purchases - Closing Stock
Capital gain is classified into ----------- types	Two	Three	Four	Five	Two
Amount of gain arising from the transfer of capital asset is called as ----------------	Capital gain	Profit	Income	Receipt	Capital gain
Transfer includes ------------	Sale	Exchange	Sale and Exchange	Purchase	Sale and Exchange
The price which the assessee has incurred for acquisition of capital asset is termed as--------------	Cost of acquisition	cost of improvement	Cost of inflation	selling price	Cost of acquisition
Capital expenditure incurred in making any additions or alterations to the capital asset is -----------	Cost of improvement	Cost of inflation	Cost of acquisition	selling price	Cost of improvement
Capital assets includes ------------	Plant and machinery	Building	Plant, Building and shares	Shares	Plant, Building and shares
Capital gain = ----------- - cost of acquisition	Sale price	Purchase price	Transfer price	total price	Sale price
Net Consideration = ------------- - Transfer Price	Sale price	Purchase price	Transfer price	total price	Sale price
Rate of tax for long term capital gain is ------------	10%	20%	30%	40%	20%
Exempted assets are given u/s -------------	54	55	56	59	54
Rate of tax for short term capital gain (subject to STT) is --------------	15%	20%	30%	40%	15%
Gain arising on the transfer of short term capital asset is known as ---------	Short term capital gain	Long term capital gain	Medium term capital gain	capital gain	Short term capital gain
Gain arising on the transfer of long term capital asset is known as ----------	Short term capital gain	Long term capital gain	Medium term capital gain	capital gain	Long term 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	Assets	Self generated assets
Capital gain on transfer of long term residential house property is exempted under section --------------	54	55	57	58	54
Capital Gain on transfer of self cultivated agricultural land in urban areas is exempted under section --------	54	54 B	57	58	54 B
Capital Gain on compulsory acquisation of land and building is exempted under section --------	54	54 D	57	58	54 D

TAXATION					
UNIT IV					
QUESTIONS	OPTION I	OPTION II	OPTION III	OPTION IV	ANSWER
Securities of a company which is registered in any one of stock exchanges in India is termed as ----------------	Listed Securities	unlisted debentures	Tax free debentures	Taxable debentures	Listed Securities
Securities of a company which is not registered in any one of stock exchanges in India is termed as ---------	Listed debentures	unlisted securities	Tax free debentures	taxable debentures	unlisted securities
Deductions with respect to royalty on patents falls under section -----------	80 IB	80 RRB	80 U	80 K	80 RRB
Deductions with respect to interest on deposits in saving account falls under section ------------	80 IB	80 TTA	80 U	80 K	80 TTA
The securities on which interest is receivable with out deduction of tax at source is called -------------	Tax free securities	Taxable securities	Listed securities	unlisted debentures	Tax free securities
The securities on which interest is receivable after deduction of tax at source is -----	Tax free securities	Less tax securities	Taxable securities	Listed Securities	Less tax securities
Conversion of net interest into gross interest by applying specified rate of TDS is known as ----------	Grossing up	Net value	Total value	Net ptofit	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	Net worth	Gross interest
Under the head income from other sources, the specific income is explained under section ---------	56 (1)	56 (2)	56 (3)	56 (4)	56 (2)
Under the head income from other sources, the general income is explained under section ---------	56 (1)	56 (2)	56 (3)	56 (4)	56 (1)
Deductions with respect to undertaking developing projects and building approved housing projects falls under section ------------	80 IB	80 IBA	80 U	80 K	80 IBA
Deductions with respect to setting up industries in backward states falls under section ------------	80 IB	80 IC	80 U	80 K	80 IC
Deductions with respect to farm producer companies falls under section ------------	80 IB	80 PA	80 U	80 K	80 PA
Standard deduction out of family pension is allowed upto 33 1/3 % of such pension or Rs.------------------ which ever is less	Rs.15,000	Rs.20,000	Rs.30,000	Rs.40,000	Rs.15,000
Remuneration for delivering lectures or writing articles is --------------	General income	Specific income	Gross income	Net income	General income
Interest on securities is ------------	General income	Specific income	Gross income	net income	Specific income
Rate of TDS for listed securities is ---------	10%	20%	30%	41%	10%
Rate of TDS for casual income is ------------	10%	30%	30%	40%	30%
Rate of TDS for unlisted securities is ------------	10%	22%	31%	20%	10%
Rate of TDS for interest on government securities is -----	10.2%	20.4%	No TDS	30%	No TDS
Dividend received from Indian company is -------------	Fully taxable	Partially taxable	Fully exempted	Partially exempted	Fully exempted
Winning from Lotteries, cross word puzzles, horse races and other races etc. are ------------	Casual income	Total income e	Net income	Gross income	Casual income
Directors fees is --------------	General income	Specific income	Gross income	net income	General income

Deductions with respect to contribution given by any person to political party falls under section ------------	80 GGC	80 D	80 U	80 K	80 GGC
Deductions with respect to infrastructure project falls under section -----------	80 IA	80 D	80 U	80 K	80 IA
Deductions with respect to setting up new undertakings falls under section ------------	80 IB	80 D	80 U	80 K	80 IB
Gift received is ------------	General income	Specific income	Gross income	net income	Specific income
Bonus shares received by a dealer of shares is a ----------	Capital receipt	Revenue receipt	Exempt income.	taxable income	Revenue receipt
Tips received by the waiter is --------------	General income	Specific income	Gross income	net income	General income
Income from letting of plant and machinery is ------	General income	Specific income	Gross income	net income	Specific income
Rate of TDS on bank interest is ---------------	10%	20%	No TDS	30%	No TDS
Rate of TDS on interest of units of UTI is ---------------	10%	20%	No TDS	30%	No TDS
Company formed and registered under companies Act 1956 is called --------------	Indian company	Foreign company	Public company	Private company	Indian company
Interest from bank deposit is --------------	General income	Specific income	Gross income	Net income	General income
A Company which is not a domestic company is ----------	Charter company	Foreign company	Indian company	Private company	Foreign company
Interest from post office saving a/c is --------------	General income	Specific income	Gross income	net income	General income
Gift is taxable under the head income from other sources, if its value exceeds --------	Rs. 55, 000	Rs. 50, 000	Rs. 60, 000	Rs. 70, 000	Rs. 50, 000
Family pension is ------------	General income	Specific income	Gross income	net income	General income
Securities includes ----------	Debentures	Bonds	Shares	Debentures and Bonds	Debentures and Bonds
Deductions with respect to interest on loan taken for studies falls under section ------------	80 E	80 G	80 I	80 K	80 E
Deductions with respect to medically handicapped assessee falls under section ------------	80 CCC	80 G	80 U	80 K	80 U
PM National Relief Fund qualifies -------- rate of deduction	100%	50%	60%	70%	100%
Africa Fund qualifies -------- rate of deduction	100%	50%	60%	70%	100%
Short term capital loss can be carried forward for -------	4 years	8 years	12 years	14 years	8 years
Long term capital loss can be carried forward for ---------	4 years	8 years	12 years	15 years	8 years
Loss under the head profits and gains can not be set off from -------------- income	Salaries	House property	Capital gain	Professional	Salaries
There can be no loss under the head ------------	House property	Salary	Capital gain	Other sources	Salary
Business loss can be carried forward for ------------	4 years	8 years	12 years	10 years	8 years
Speculation loss can be carried forward for the maximum of ----------- to set off	8 years	10 years	4 years	5 years	4 years
Deductions with respect to approved saving scheme, Life Insurance premium falls under section ------------	80 C	80 G	80 U	80 K	80 C
Deductions with respect to contribution to National pension scheme of central government falls under section ------------	80 CCD	80 G	80 U	80 K	80 CCD
Deductions with respect to investment made in any notified equity saving scheme falls under section ------------	80 CCG	80 G	80 U	80 K	80 CCG

Deductions with respect to medical insurance premium falls under section ------------	80 CCG	80 D	80 U	80 K	80 D
Deductions with respect to medical treatment of a dependent in case of person with disability falls under section ------------	80 CCG	80 DD	80 U	80 K	80 DD
Deductions with respect to medical treatment falls under section ------------	80 CCG	80 DDB	80 U	80 K	80 DDB
Deductions with respect to interest on loan for residental house property falls under section ------------	80 CCG	80 EE	80 U	80 K	80 EE
Deductions with respect to expenditure incurred on payment of house rent falls under section ------------	80GG	80 D	80 U	80 K	80GG
Deductions with respect to any payment made to certain scientific insititution having rural development programme falls under section -----------	80 GGA	80 D	80 U	80 K	80 GGA
Deductions with respect to contribution given by companies to political party falls under section ------------	80 GGB	80 D	80 U	80 K	80 GGB

UNIT-V – Income Tax Authorities

SYLLABUS

Income Tax Authorities - Procedures for assessment - Collection of Tax

Income Tax Authorities their Powers & Functions under Income-Tax Act, 1961

The Government of India has constituted a number of authorities to execute the Income Tax Act and to control the Income Tax Department efficiently. The Central Board of Direct Taxes is the supreme body in the direct tax set-up. It has to perform several statutory functions under the various actsand it is responsible for the formulation and implementation of different policies relating to direct taxes administration. The Board consists of a Chairman and six members.

Section 117

- The Central Government can appoint those persons whom it thinks are fit to become Income Tax Authorities. The Central Government can authorize the Board or a Director-General, a Chief Commissioner or a Commissioner or a Director to appoint income tax authorities below the ranks of aDeputy Commissioner or Assistant Commissioner, According to the rules and regulations of the Central Government controlling the conditions of such posts.

CHAPTER XIII, INCOME-TAX AUTHORITIES Section 116.

There shall be the following classes of income-tax authorities namely:

1.The Central Board of Direct Taxes

2.Directors-General of Income-tax or Chief Commissioners of Income-tax,

3.Directors of Income-tax or Commissioners of Income-tax or Commissioners of Income-tax (Appeals),

4.Additional Directors of Income-tax or Additional Commissioners of Income-tax or Additional Commissioners of Income-tax Appeals

5.Joint Directors of Income-tax or Joint Commissioners of Income-tax

6.Deputy Directors of Income-tax or Deputy Commissioners of Income-tax or Deputy Commissioners of Income tax Appeals

7.Assistant Directors of Income-tax or Assistant Commissioners of Income-tax, 8.Income-tax Officers,

9.Tax Recovery Officers,

10.Inspectors of Income-tax.

Functions

The sections providing functions 128,130,130A were omitted but the following functions are provided in the other sections related to jurisdiction-1. Assistant Commissioners of Income-tax shall be under the direct control of the Central Board of Revenue and shall perform their functions in respect ofsuch persons or such areas as the

Central Board of Revenue may direct and, where such directions have assigned to two or more Appellate Assistant Commissioners of Income-tax, the same persons or same area in accordance with any orders which the Central Board of Revenue may make for the distribution and allocation of the work to be performed.2. Inspecting Assistant Commissioners of Income-tax and Income-tax Officers shall perform their functions in respect of such persons or such areas as the

Commissioner of Income-tax may direct and, where such directions have assigned to two or more Inspecting Assistant Commissioners of Income-tax or Income-tax Officers, in accordance with any orders which the Commissioner of Income-tax may make for the distribution and allocation of the work to be performed.3. Inspectors of Income-tax shall perform such functions in the execution of this Act as are assigned to them by the

Income-tax Officer or other Income-tax authority under whom they are appointed to work, and shall be subordinate to such Officer or authority.4. The

Central Board of Revenue may, by notification in the Official Gazette, empower Commissioners of Income-tax, Appellate or Inspecting Assistant Commissioners of Income-tax and Income-tax Officers to perform such functions as may be specified in the notification, and the functions so specified shall cease to be performed in respect of the specified classes of persons or classes of income by the other authorities appointed.

Powers of Income Tax Authorities

Section 131 Power relating to Discovery, Production of evidence, etc:

The Assessing Officer, The Joint Commissioner, the Chief Commissioner or theCommissioner has the powers as are provided in a court under the code of Civil Procedure, 1908, when trying to suit for the following matters:

(a) discovery and inspection;

(b) to enforce any person for attendance, and examining him on oath

(c) issuing commissions; and

(d) compelling the production of books of account and other document.

Section 132 Power of Search and Seizure:

Today it is not hidden from income tax authorities that people evade tax and keep unaccounted assets. When the prosecution fails to prevent tax evasion, the department has to take actions like search and seizure.

Section 132A- Requisition of Books of account, etc:

Where the Director or the Director-General or Commissioner or the Chief Commissioner inconsequence of information in his possession, has reason to believe that the book of accounts or other documents or the assets have been taken under custody by any authority or officer under any other law, then the Chief Commissioner or the Director General or Director or Commissioner can authorize any Joint Director, Deputy Director, Joint Commissioner, Assistant Commissioner, Assistant Director, or Income tax Officer to require the authority to provide such books of account, assets or any documents to the demanding officer, when such officer is of the opinion that it is no longer necessary to retain the same in his custody.

Section 133-Power to Call for Information:

The Commissioner, The Assessing Officer or the Joint Commissioner may for the purpose of this Act:

(a) can call any firm to provide him with a return of the addresses and names of partners of the firm and their shares;

(b) can ask any Hindu Undivided Family to provide him with return of the addresses and names of members of the family and the manager;

(c)can ask any person who is a trustee, guardian or an agent to deliver him with return of the names of persons for or of whom he is an agent, trustee or guardian and their addresses;

(d) can ask any person, dealer, agent or broker concerned in the management of stock or any commodity exchange to provide a statement of the addresses andnames of all the persons to whom the Exchange or he has paid any sum related with the transfer of assets or the exchange has received any such sum with the particulars of all such payments and receipts;

Section 133 A-

Power of Survey: The term 'survey' is not defined by the Income Tax Act. An Income Tax authority can have a survey for the purpose of this Act. The objectives of conducting Income Tax surveys are:

• To discover new assessees;

• To collect useful information for the purpose of assessment;

•To verify that the assessee who claims not to maintain any books of accounts is in-fact maintaining the books;

•To check whether the books are maintained, reflect the correct state of affairs.

Section 133 B- Collection of Information:

For the purpose of collection of information which may be useful for any purpose, the Income tax authority can enter any building or place within the limits of the area assigned to such authority, or any place or building occupied by any person in respect of whom he exercises jurisdiction.

Section 134- Power to inspect registers of companies-

The Assessing Officer, the Deputy Commissioner Appeals) the
Joint Commissioner or the Commissioner Appeals or any person
subordinate to him authorised in writing in this behalf by the Assessing
Officer, may inspect, and if necessary, take copies, or cause copies to be taken, of any register of the members, debenture holders or mortgagees of any company or of any entry in such register.

Section 135. Power of Director General or Director, Chief Commissioner or Commissioner and Joint Commissioner

- The Director General or Director the Chief Commissioner or Commissioner and the Joint Commissioner shall be competent to make any enquiry under this Act, and for this purpose shall have all the powers that an Assessing Officer has under this Act in relation to the making of enquiries.

Powers of Income-tax authorities.—(1) The Income-tax Officer, Appellate Assistant Commissioner, Commissioner and Appellate Tribunal shall, for the purposes of this Act, have the same powers as are vested in a Court under the Code of Civil Procedure, 1908 (V of 1908), when trying a suit in respect of the following matters, namely:

(*a*) discovery and inspection;

(*b*) enforcing the attendance of any person, including any officer of a banking company, and examining him on oath;

(*c*) compelling the production of books of account and other documents; and

(*d*) issuing commissions.

(2) Subject to any rules made in this behalf, any Income-tax Officer specially authorised by the Commissioner in this behalf may,

(*i*) enter and search any building or place where he has reason to believe that any books of account or other documents which in his opinion will be useful for, or relevant to, any proceeding under this Act may be found and examine them, if found;

(*ii*) seize any such books of account or other documents or place marks of identification thereon or make extracts or copies there from;

(*iii*) make a note or an inventory of any other article or thing found in the course of any search under this section which in his opinion will be useful for, or relevant to, any proceeding under this Act;

and the provisions of the Code of Criminal Procedure, 1898 (V of 1898), relating to searches shall apply so far as may be to searches under this section.

(3) Subject to any rules made in this behalf, any authority referred to in sub section (1) may impound and retain in its custody for such period as it thinks fit any books of account or other documents produced before it in any proceeding under this Act:

Provided that an Income-tax Officer shall not

(*a*) impound any books of account or other documents without recording his reasons for so doing; or

(*b*) retain in his custody any such books or documents for a period exceeding fifteen days (exclusive of holidays) without obtaining the approval of the Commissioner therefor.

(4) Any proceeding before any authority referred to in this section shall be deemed to be a judicial proceeding within the meaning of sections 193 and 228, and for the purposes of section 196 of the Indian Penal Code (XLV of 1860).]

ASSESSMENT

Every Person, who is earning, which is chargeable to tax, has to furnish his return of income to the Income Tax Department. After filling of return of income, the next step is the processing of income tax return by the Income Tax Department. The income tax department examines the return of income and specifies any correction, if any. The process of examination of the return of the Income Tax Department is called "Assessment". Assessment includes re-assessment and best judgment assessment under section 147 and 144 respectively. We will discuss each type of assessment in detail in this article.

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

- Assessment under section 143(1), i.e., Summary assessment without calling the assessee.
- Assessment under section 143(3), i.e., Scrutiny assessment.
- Assessment under section 144, i.e., Best judgment assessment.
- Assessment under section 147, i.e., Income escaping assessment.

Assessment under section 143(1)

This is a preliminary assessment and is referred to as summary assessment without calling the assessee (i.e., taxpayer).

Scope of assessment under section 143(1)

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

(i) any arithmetical error in the return; or

(ii) an incorrect claim, if such incorrect claim is apparent from any information in the return;(iii) disallowance of loss claimed, if return of the previous year for which set-off of loss is claimed was furnished beyond the due date specified under section 139(1); or

(iv) disallowance of expenditure indicated in the audit report but not taken into account in computing the total income in the return; or

(v) disallowance of deduction claimed u/s 10AA, 80IA to 80-IE, if the return is furnished beyond the due date specified under section 139(1); or

(vi) addition of income appearing in Form 26AS or Form 16A or Form 16 which has not been included in computing the total income in the return. However, no such adjustment shall be made in relation to a return furnished for the assessment year 2018-19 and thereafter.

However, no such adjustment shall be made unless an intimation is given to the assessee of such adjustment either in writing or in electronic mode. Further, the response received from the assessee, if any, shall be considered before making any adjustment, and in case where no response is received within 30 days of the issue of such intimation, such adjustments shall be made.

For the above purpose "an incorrect claim apparent from any information in the return" means a claim on the basis of an entry in the return :-

(i) of an item which is inconsistent with another entry of the same or some other item in such return;

(ii) in respect of which the information is required to be furnished under the Act to substantiate such entry and has not been so furnished; or

(iii) in respect of a deduction, where such deduction exceeds specified statutory limit which may have been expressed as monetary amount or percentage or ratio or fraction;

Procedure of assessment under section 143(1)

- After correcting arithmetical error or incorrect claim (if any) as discussed above, the tax and interest and fee*, if any, shall be computed on the basis of the adjusted income.
- Any sum payable by or refund due to the taxpayer shall be intimated to him.
- An intimation shall be prepared or generated and sent to the taxpayer specifying the sum determined to be payable by, or the amount of refund due to the taxpayer.
- An intimation shall also be sent to the taxpayer in a case where the loss declared in the return of income by the taxpayer is adjusted but no tax or interest is payable by or no refund is due to him.
- The acknowledgement of the return of income shall be deemed to be the intimation in a case where no sum is payable by or refundable to the assessee or where no adjustment is made to the returned income.

Types of Assessment

Under Income Tax Act, 1961, there are four types of assessment as mentioned below: Self assessment –u/s 140A

Summary assessment –u/s 143(1) Scrutiny assessment –u/s 143(3) Best Judgment Assessment –u/s 144 Protective assessment Re-assessment or Income escaping assessment –u/s 147 Assessment in case of search –u/s153A Self assessment: Before submitting returns assessee is supposed to find whether he is liable for any tax or interest. For this purpose this section has been introduced in Income tax act. Where any tax is payable on the basis of any return required to be furnished under section 139 or section 142 or section 148 or section 153A, after deducting: Advance tax Paid, if any TDS/TCS Relief MAT credit Then assessee shall pay tax & interest before furnishing return and proof of such payment will be accompanied with return of income. Summary assessment: Assessment under section 143(1) is like preliminary checking of the return of income. Under this section, Income tax department sent intimation u/s 143(1) in which comparative Income Tax computation [i.e. as provided by Tax payer in Return of Income and as computed u/s 143(1)] is sent by Income Tax Department. At this stage no detailed scrutiny of the Return of Income is carried out. At this stage, the total income or loss is computed after making the following adjustment (if any), namely- Any arithmetical error in the return, An incorrect claim, if such incorrect claim is apparent from any information in the return; Disallowance of loss claimed, if return of the previous year for which set off of loss is claimed was furnished beyond the due date specified under section 139(1); Disallowance of expenditure indicated in the audit report but not taken into account in computing the total income in the return; Disallowance of deduction claimed under section 10AA, 80-IA, 80-IAB, 80-IB, 80-IC, 80-ID, or section 80-IE, if the return is furnished beyond the due date specified under section 139(1);

Addition of income appearing in form 26AS or form 16A or Form 16 which has not been included in computing the total income in the return; Time Limit Assessment u/s 143(1) can be made within a period of one year from the end of financial year in which the return of income is filled. Scrutiny Assessment: Scrutiny assessment refer to the examination of a return of income by giving opportunity to the assessee to substantiate the income declared and the expenses, deduction, losses, exemptions, etc. claimed in the return with the help of evidence. During the course of scrutiny, the assessing officer gets opportunity to conduct enquiry as he deemed fit from the assessee and from third parties.

The exercised is aimed at ascertaining whether the income in the return is correctly shown by the assessee and whether the claims for deductions, exemptions etc. are factually and legally correct.

If any omission, discrepancies, inaccuracies, etc. comes light to as a result of examination, the assessing officer makes his own assessment of the assessee's taxable income after taking into consideration all the relevant facts.

These assessments are made under section 143(3) of the income tax act. The case selected for Scrutiny Assessment can be of by two types - i.e. (1) Manual scrutiny cases and (2) Compulsory Scrutiny cases. (1) Manual scrutiny cases Following can be reason for manual scrutiny case: Not filing Income Tax Return Declaring lesser income compared to earlier year or Declaring more loss compared to earlier year. Mismatch in TDS credit between claim and 26AS. Non declaration of exempt income. Claiming large refunds in return of Income. Taking double benefit due to change in Job. High Value Transaction (as reflected in AIR). (2) Compulsory Scrutiny cases The following cases are compulsorily selected for scrutiny: Cases involving addition in the earlier assessment year in excess of Rs. 10 lakhs on a substantial and recurring question of law or fact which is confirmed in appeal or is pending before an appellate authority may come under compulsory scrutiny. Cases involving addition in an earlier year on the issue of transfer pricing in excess of Rs. 10 crore or more on a substantial and recurring question of law or fact which is confirmed in appeal or is pending before an appellate authority. Computer Added Scrutiny Selection (CASS): cases are also being selected under CASS on the basis of broad based selection filters. List of such cases shall be separately intimated in due course by DGIT (system) to the jurisdictional concerned. The cases for this purpose are mostly selected through the process of computer assisted scrutiny selection (CASS) and there is no element of subjectivity in this process. Cases in respect of which specific and verifiable information pointing out tax evasion is given by Government Department/ Authorities. The Assessing Officer shall record reasons and take prior approval from Pr. CCIT/CCIT/Pr. DGIT/DGIT concern before selecting such a case for scrutiny. Cases where order denying the approval u/s 10 (23C) of the Act or withdrawing the approval already granted has been passed by the competent authority, yet the assessee found claiming tax exemption under the aforesaid provision of the Act.

There can be two types of scrutiny assessment i.e. (1) Limited scrutiny assessment and (2) Complete Scrutiny Assessment. When case is selected for Limited scrutiny assessment, assessing officer can ask only the details regarding the reason behind the selection of any specific matter. However, in case of Complete Scrutiny Assessment, Assessing officer can ask complete details of transaction reflecting in the return of the income. Best Judgment Assessment Section 144 of Income tax act, 1961 speaks about Best Judgment Assessment.

In the best judgment assessment, an assessing officer makes an assessment based on his best reasoning. Assessee should neither be dishonest in his assessment nor have a vindictive attitude. There are two types of Best Judgment Assessment a. Compulsory best judgment assessment: It is done when assessing officer finds that there is an act amounting to non co-operation by the assessee or where assessee is found to be a defaulter in supplying information to the department. b. Discretionary best judgment assessment: It is done in cases where assessing officer is dissatisfied with the authenticity of the accounts given by the assessee or where no regular method of accounting has been followed by the assessee. The process of Best Judgment Assessment is applied in conformity with the Principle of Natural justice. As per the provision of Section 144 of the Income Tax Act, 1961, the Assessing officer is supposed to make an assessment of the income of an assessee to the best of his Judgment in the following cases: If the person fails to make return u/s as required 139(1) and has not made a return or a revised return under sub-section (4) or (5) of that section; or If any person fails to comply with all the terms of a notice under section 142(1) or fails to comply with the direction requiring him to get his account audited in terms of section 142(2A); or If any person after having filed a return fails to comply with all the terms of a notice under section 143(2) requiring his presence or production of evidence and documents; or If the Assessing officer is not satisfied about the correctness or the completeness of the accounts of assessee or if no method of accounting has been regularly employed by the assessee. In the case of best judgment assessment, an assessee has a right to file an appeal u/s 246 or to make an application for revision u/s 264 to the commissioner. One should also keep in view the following The best judgment assessment can only be made after giving the assessee an opportunity of being heard. Such opportunity shall be given by issue of a notice to the assessee to show cause why the assessment should not be completed to the best of his Judgment and that opportunity for hearing will not be necessary where notice u/s 142(1) already been issued. Protective assessment

Though there is no provision in the income tax act authorizing the levy of income tax on a person other than whom the income tax is payable, yet it is open to the authorities to make a protective or alternative assessment if it is not ascertainable who is really liable to pay the tax among a few possible persons. In making a protective assessment, the authorities are merely making an assessment and leaving it as a paper assessment until the matter is decided (as to whom the asset owned by) one way or another. Further more, a protective order of assessment can be passed but not a protective order of penalty must, however be noted that while protective assessment is permissible, a protective order for recovery is not permissible.

Re-Assessment (or) Income escaping assessment: Re-assessment is carried out if the Assessing officer has reason to believe that any income chargeable to tax has escaped assessment for any assessment year. Scope of assessment u/s 147 The objective of carrying out assessment u/s 147 is to bring under the tax net, any income which has escaped assessment in original assessment. Here, Original assessment means an assessment u/s 143(1) or 143(3) or 144 and 147 (as the case may be). Procedure of assessment u/s 147 For making assessment u/s 147, the assessing officer has to issue notice u/s 148 to the taxpayer and has to give him an opportunity of being heard. If the Assessing officer has reason to believe that any income chargeable to tax has escaped assessment for any assessment year, then he may, subject to provisions of section 148 to 153, access to re-assess such income and also other income chargeable to tax which has escaped assessment and which comes to his notice subsequently in the course of proceeding under this section. He is also empowered to re-compute the loss or the depreciation allowance or any other allowance, as the case may be, for the assessment year concerned. Items which are the subject matters of any appeal, reference or revision can not be covered by the Assessing officer under section 147. Time limit for completion of assessment under section 147 As per section 153 (2), assessment u/s 147 shall be made within 9 month from the end of the financial year in which notice u/s 148 was served. Time limit for issuance of notice under section 148 Notice u/s 148 can be issued within a period of 4 years from the end of the relevant assessment. If the escaped income is likely to amount Rs. 1,00,000 or more and certain other condition satisfied, then notice can be issued up to 6 years from the end of the relevant assessment year.

In case of escaped income relates to any assets (including financial interest in any entity) located outside India, notice can be issue up to 16 years from the end of the relevant assessment year. Notice u/s 148 can be issued by AO only after getting prior approval from the prescribed authority mentioned in section 151. Assessment in case of search or requisition Notwithstanding anything contained in section 139, section 147, section 148, section 149, section 151 and section 153, in the case of a person where a search is initiated under section 132 or books of account, other documents or any assets are requisitioned under section 132A after the 31st day of May, 2003, The Assessing Officer shall - (a) issue notice to such person requiring him to furnish within such period, as may be specified in the notice, the return of income in respect of each assessment year falling within six assessment years referred to in clause (b) in the prescribed form and verified in the prescribed manner and setting forth such other particulars as may be prescribed and the provisions of this Act shall, so far as may be, apply accordingly as if such return were a return required to be furnished under section 139; (b) Assess or reassess the total income of six assessment years immediately preceding the assessment year relevant to the previous year in which such search is conducted or requisition is made.

COLLECTION OF TAX

The procedure of tax collection in India has evolved over the years and is now subject to several acts, rules, and regulations, as laid down by the Indian Income Tax department. The tax is imposed on any kind of income of an individual as an employee or a self employed, or a corporation engaged in commercial activity. The amount of taxation depends on the type of income and the person or the organization earning the income. The tax collection in India has to follow several norms specified under the Income tax act of India. The tax is calculated under different heads of income such as salary head of income, house property head of income, profit in business or profession head of income, capital gains head of income, and other sources head of income.

The tax amount also depends on the claims for rebates and exemptions under the Income tax act of India. The income tax is levied on all kinds of income and collected by the Central government of India apart from the income on agriculture which is not taxable under the Central government. The State government of India collects the tax pertaining to income from agriculture. The provisions under which the tax collection in India is performed are mentioned in the Income Tax Rules, 1962 and the Income Tax Act, 1961. The Tax and Revenue Department of the Central government of India's Ministry of Finance has the authority of legal administration pertaining to the tax collection in India.

Some facts under the tax collection in India

- The laws on central government income tax collection and recovery is governed by the Department of Tax and Revenue under Ministry of Finance, India
- Designated due dates are ascertained for the purpose of filing of returns

- The filing date is not extended and any late filing is charged with interest
- The returns pertaining to the losses have to be filed within the due date
- The system of taxation is completely based on the personal assessment of income
- All the large sized and medium sized taxpayers are subjugated to investigative assessment
- The tax is deducted at source by the employers on behalf of the employees and from all kinds of defrayments to non residents
- Penalties and interest are charged on the non payment of taxes and failure to file returns

Exemption schemes under the tax collection in India:

- Exemption on income spent on higher educational purpose
- Tax is exempted on income spent as contribution to provident fund, insurance policies, etc
- Exemption on income spent for the treatment of a diseased person who is dependent
- If a person is disabled and is working then his income is not taxed and he is exempted from paying it.
- Exemption on the income spent on the payment of interest on loan
- Exemption on the income spent on buying national savings certificates and investments in other government based savings schemes

Part A (ONE Mark)

Multiple Choice Questions

Online Examination

Part B (2 Marks Questions)

1. Write any four Income Tax authorities?
2. Write any four powers of assessing officer?
3. What is meant by self assessment?
4. Give the meaning for best judgment assessment?
5. What is meant by compulsory best judgment assessment?
6. Give the meaning for discretionary best judgment assessment?
7. Write the steps in collection of tax?
8. Give the meaning for TDS?
9. What is meant by PAN?
10. What is meant by advance payment of tax?

11.What is meant by filing of returns?

11. Write any four powers of assessing officer?
12. Write a note on belated return?
13. Write the importance of tax deducted at source?
14. Write a note on commissioner of Income Tax
15. What is best judgment assessment?
16. Mention the Income tax authorities
17. State briefly the law relating to deduction of tax at source?
18. What is the time limit for filing of return of income under the Income Tax Act?
19. Write a note on belated return?
20. Write the importance of tax deducted at source?
21. What is meant by filing of returns?
22. Name any four Income Tax Authorities?
23. What is best judgment assessment?
24. Write a note on belated return?

***CIA- 3 X 2 = 6 (ANSWER ALL THE QUESTIONS)**

****ESE - 5 X 2 = 10 (ANSWER ALL THE QUESTIONS)**

Part C (6 Marks Questions)

1. Discuss about various income tax authorities under IT Act?
2. Explain the procedure for assessment in detail?
3. Discuss the powers of various income tax authorities in detail?
4. The Income tax Act has provided the assessing officer with vital power to assess the income of any person. Discuss.
5. Explain in brief the provision of income tax relating to advance payment of tax?
6. What are the authorities provided by the Income Tax Act for the administration of tax? Discuss briefly the powers of Income Tax officer?
7. What is best judgment assessment? What are the circumstance under which it can be made?
8. State briefly the law relating to deduction of tax at source?
9. What is the time limit for filing of return of income under the Income Tax Act?
10. . What are the provisions relating to deduction of tax at source from income chargeable under the head salaries and income from dividend?

***CIA- 3 X 8 = 24 (EITHER OR TYPE)**
****ESE- 5 X6 = 30 (EITHER OR TYPE)**

TAXATION					
UNIT V					
QUESTIONS	OPTION I	OPTION II	OPTION III	OPTION IV	ANSWER
The Direct Tax Laws (Amendment) Act -------------	1961	1962	1984	1987	1987
Income Tax Authorities have been grouped into --------------- wings	Two	Three	Four	Five	Two
In administrative set up, the Income Tax departments high	Assessing Officer	C.B.D.T.	Director General	Chief Commiss	C.B.D.T.
The ------------- is empowered to appoint the CBDT members	Central Government	State Government	High Court	Supreme Court	Central Government
____________ members can be appointed in the CBDT	5	4	2	3	5
The ------------- is empowered to appoint the Director General of Income Tax	Central Government	State Government	High Court	Supreme Court	Central Government
The ------------- is empowered to appoint the Chief Commissioner of Income Tax	Central Government	State Government	High Court	Supreme Court	Central Government
The ------------- is empowered to appoint the Commissioner of Income Tax	Central Government	State Government	High Court	Supreme Court	Central Government
The ------------- is empowered to appoint the Directors of Income Tax	Central Government	State Government	High Court	Supreme Court	Central Government
The ------------- is empowered to appoint the Additional Commissioner of Income Tax	Central Government	State Government	High Court	Supreme Court	Central Government
The ------------- is empowered to appoint the Additional Directors of Income Tax	Central Government	State Government	High Court	Supreme Court	Central Government
The ------------- is empowered to appoint the Joint Commissioner of Income Tax	Central Government	State Government	High Court	Supreme Court	Central Government
The ------------- is empowered to appoint the Joint Directors of Income Tax	Central Government	State Government	High Court	Supreme Court	Central Government
The ------------- is the most important authority in the organisation structure of Income Tax department	Chief Commissioner	Director General	Assessing Officer	Joint Commissioner	Assessing Officer
___________ is the primary authority to initiate assessment proceedings and make assessment	Chief Commissioner	Director General	Assessing Officer	Joint Commissioner	Assessing Officer
_______________ is the only authority to collect tax	Chief Commissioner	Director General	Assessing Officer	Joint Commissioner	Assessing Officer
_______________ is the authority which comes into contact with the public	Chief Commissioner	Director General	Assessing Officer	Joint Commissioner	Assessing Officer

The ---------------- is empowered to appoint Income Tax Inspector	Chief Commissioner	Director General	Assessing Officer	Joint Commissioner	Chief Commissioner
The ------------ will assist the Assessing Officer in performance of their duties	Chief Commissioner	Director General	Income Tax Inspector	Joint Commissioner	Income Tax Inspector
The CBDT functions under the control of --------------	Ministry of Finance	Ministry of Commerce	Ministry of Defence	Ministry of Trade	Ministry of Finance
Power of survey falls under section ------------	133 A	134 B	133	134	133 A
Power to call for information falls under section ------------	133 A	134 B	133	134	133
Power to inspect registers of companies falls under section ---------------	133 A	134 B	133	134	134
Power to make inquiries falls under section -----------	133 A	134 B	133	135	135
The method of assessment of tax has ------------------ steps	3	4	5	2	3
___________ is the first step for assessment of tax	Computation of tax payable income	Computation of tax payable	Serving of notice of demand in prescribed form	Computing net income	Computation of tax payable income
___________ is the second step for assessment of tax	Computation of tax payable income	Computation of tax payable	Serving of notice of demand in prescribed form	Computing net income	Computation of tax payable
___________ is the third step for assessment of tax	Computation of tax payable income	Computation of tax payable	Serving of notice of demand in prescribed form	Computing net income	Serving of notice of demand in prescribed form
Every person has to submit particulars of the income in prescribed form, that prescribed form is known as -------------	Filing of returns	Return of income	Tax Form	Return Forms	Return of income
For company assesses, ------------ of the Assessment Year is the due date of filing of return	30th day of September	30th day of June	30th day of November	31st day of July	30th day of September
For all non - corporate persons,, ------------ of the Assessment Year is the due date of filing of return	30th day of September	30th day of June	30th day of November	31st day of July	30th day of September

For all other persons, ------------ of the Assessment Year is the due date of filing of return	30th day of September	30th day of June	30th day of November	31st day of July	31st day of July
For a company as well as non - corporate persons who are required to furnish a report under section 92 E , ------------ of the Assessment Year is the due date of filing of return	30th day of September	30th day of June	30th day of November	31st day of July	30th day of November
______________ is the penalty for non filing of return	Rs.6,000	Rs.5,000	Rs.15,000	Rs.10,000	Rs.5,000
Interest @ --------------per month is to be charged when the assessee has failed to file the return or has filed the return late	1%	2%	3%	5%	1%
For Individuals having income from salary/House property/other sources has to file the Form No. --------------	ITR - 1	ITR - 2	ITR - 3	ITR - 4	ITR - 1
For Individuals and HUF not having income from Business / Profession has to file the Form No. -----	ITR - 1	ITR - 2	ITR - 3	ITR - 4	ITR - 2
For Individuals and HUF being partners in firms has to file t	ITR - 1	ITR - 2	ITR - 3	ITR - 4	ITR - 3
For Individuals and HUF having income from a proprietory	ITR - 1	ITR - 2	ITR - 3	ITR - 4	ITR - 4
______________ is a code number issued by the Income Tax	PAN	BAN	VAN	LAN	PAN
The PAN ia an Alpha- Numeric code having ---------------- c	11	10	12	13	10
The Best Judgement Assessment is of ------------ types	2	3	4	5	2
CBDT -	Central Board of Direct Taxes	Central Board	Control Board	Criminal Board	Central Board of Direct Taxes
Appointment of income tax authorities explained under section ---------	118	117	115	114	117
----------- is having the power to call for information	Assessing Officer	Deputy Commis	Income Tax inspect	Assessing Officer and	Assessing Officer and
----------- is having the power of survey	Assessing Officer	Deputy Commis	Income Tax inspect	Assessing Officer,	Assessing Officer, Deputy
The Finance Act ------------	1987	1985	1986	1989	1986

Provisions relating to power to collect certain information is explained under section --------------	133 A	133 B	133 C	133 D	133 B
New Income Tax authorities amendment is explained under section --------	117	118	116	115	116
New Income Tax authorities amendment was done in the year --------	2013	2014	2015	2016	2013
-------- is a new Income Tax Authorities	Assessing Officer	Deputy Commis	Income Tax inspector	Principal Chief Commissioner of Income Tax	Principal Chief Commissioner of Income Tax
-------- is a new Income Tax Authorities	Assessing Officer	Deputy Commis	Income Tax inspector	Principal Director	Principal Director
-------- is a new Income Tax Authorities	Assessing Officer	Deputy Commis	Income Tax inspector	Principal Commissioner of Income Tax	Principal Commissioner of Income Tax
-------- is a new Income Tax Authorities	Assessing Officer	Deputy Commis	Income Tax inspector	Principal Director of Income Tax	Principal Director of Income Tax
PAN -	Permanent Account Number	Permanent Access Number	Permanent Account Name	Personal Account Number	Permanent Account Number
Compulsory filing of return is explained under section --------	139 (1)	139 (2)	139 (3)	139 (4)	139 (1)
Filing of return by employee with his employer is explained under section --------	139 (1A)	139 (2B)	139 (3C)	139 (4D)	139 (1A)
Penalty for non filing of return is explained under section ---------	271 a	271	271 F	272	271 F
Belated return is explained under section ------------	139 (1)	139 (2)	139 (3)	139 (4)	139 (4)
Return of loss is explained under section --------	139 (1)	139 (2)	139 (3)	139 (4)	139 (3)

KARPAGAM ACADEMY OF HIGHER EDUCATION

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Coimbatore-641021
Department of Management (UG)

Name: **Dr.M.NANDHINI**
Department: **Management (UG)**
Subject Code: **17BAU503A** Semester: **V** Year: **2017-2020 Batch**
Subject: **TAXATION - I**

ASSIGNMENT I

S. No	Register No.	Name of the Student	ASSIGNMENT TITLE
1	17BAU002	Abinaya.D	Direct Tax – Features
2	17BAU003	Abisha.J	History of Income Tax Act
3	17BAU004	Aishwarya.S	Direct Tax - Merits
4	17BAU005	Akshay K Ajay	Direct Tax - Demerits
5	17BAU006	AntoWilliam . P	Indirect Tax - Merits
6	17BAU007	Aravind Kumar. P	Indirect Tax - Demerits
7	17BAU008	Aravind. M	Definitions – Person, Child, MMR, GTI, TI
8	17BAU009	Balaji. P	Income – Features and Tax treatment of Income
9	17BAU010	Elavarasan. K	Residential Status of Individual
10	17BAU011	Govarthini. S	Residential Status of HUF
11	17BAU012	Immanuvel. G	Residential Status of all other person
12	17BAU013	Jegadheesh Kumar. S	Exempted income – 1 - 20
13	17BAU014	Kannan. M	Exempted income – 21 - 40
14	17BAU015	Kowsika. V	Exempted income – 41 - 60
15	17BAU016	Kumar. C	Characteristics of Salary
16	17BAU017	Manikandan. G	Kinds of PF

17	17BAU018	Manikandan. M	Taxable Allowances
18	17BAU019	Marimuthu. M	Exempted Allowances
19	17BAU020	Mohammed Ameen . B	Exempted Perks
20	17BAU021	Nagoormohideen. S	Taxable perks
21	17BAU022	Nagulan. R. V	Taxable perks in specified cases
22	17BAU023	Natarajan. S	Profit in lieu of salary
23	17BAU024	Naveen. N	Deductions out of gross salary
24	17BAU025	Naveeth.R	Determination of annual value
25	17BAU026	Pandiyan. S	Different kinds of Rental value
26	17BAU027	Prabhakaran. D	Deduction under section 24
27	17BAU028	Pradeesh. P	Annual Value – Self occupied and Let-Out house property
28	17BAU029	Praveenkumar. P	Business Income and Professional Income
29	17BAU030	Rajagopal. P	Business income – General Deductions
30	17BAU031	Rajeshwari . K	Business income – Admissible Income and expenses
31	17BAU032	Ramasamy Ahilan	Business income – Inadmissible Income and expenses
32	17BAU033	Riyazuddin. B	Business income – Deductions
33	17BAU034	Ruban Raj Kumar. K	Capital Gain – Capital Asset
34	17BAU035	Sakthivel. E	Short Term Capital Gain
35	17BAU036	Santhosh. N	Long Term Capital Gain
36	17BAU037	Saranya.G	Cost of Improvement
37	17BAU038	Sheik Arfath. R	Cost of Acquisition
38	17BAU039	Sindhuja. R	Exempted Capital Gain – Sec 54

39	17BAU040	Sivaram. C	Other Sources – General Income
40	17BAU042	Sruthi. R	Other Sources – Specific Income
41	17BAU043	Swathi. J	Other Sources – Deductions
42	17BAU044	Tarun Kumar. R	Provisions relating to set-off and carry forward of losses
43	17BAU046	Vasunthara. S	Deduction s under sec 80 – Deduction with respect to certain payments
44	17BAU047	Venkatesh. A	Deduction s under sec 80 – Deduction with respect to certain payments
45	17BAU048	Vennila. R	Deduction s under sec 80 – Deduction with respect to certain payments
46	17BAU049	Vetriselvan. K	Deduction s under sec 80 – Deduction with respect to certain income
47	17BAU050	Vidhya Shree. G	Deduction s under sec 80 – Deduction with respect to certain income
48	17BAU051	Vignesh. R	Deduction s under sec 80 – Deduction with respect to certain income
49	17BAU052	Vignesh.C	Assessment of Individuals
50	17BAU053	Vigneshwaran. M	Income Tax authorities
51	17BAU054	Vinodkumar. P	Collection of Tax
52	17BAU055	Vinoth kumar. P	Payment of Tax

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Department: **Management (UG)**
Subject Code: **17BAU503A** Semester: **V** Year: **2017-2020 Batch**
Subject: **TAXATION - I**

ASSIGNMENT II

S. No	Register No.	Name of the Student	ASSIGNMENT TITLE
1	17BAU002	Abinaya.D	
2	17BAU003	Abisha.J	
3	17BAU004	Aishwarya.S	
4	17BAU005	Akshay K Ajay	
5	17BAU006	AntoWilliam . P	
6	17BAU007	Aravind Kumar. P	
7	17BAU008	Aravind. M	
8	17BAU009	Balaji. P	Direct Tax related news published in Newspaper or Journals must be collected and depicted in the chart
9	17BAU010	Elavarasan. K	
10	17BAU011	Govarthini. S	
11	17BAU012	Immanuvel. G	
12	17BAU013	Jegadheesh Kumar. S	
13	17BAU014	Kannan. M	
14	17BAU015	Kowsika. V	
15	17BAU016	Kumar. C	
16	17BAU017	Manikandan. G	

17	17BAU018	Manikandan. M	
18	17BAU019	Marimuthu. M	
19	17BAU020	Mohammed Ameen . B	
20	17BAU021	Nagoormohideen. S	
21	17BAU022	Nagulan. R. V	
22	17BAU023	Natarajan. S	
23	17BAU024	Naveen. N	
24	17BAU025	Naveeth.R	
25	17BAU026	Pandiyan. S	
26	17BAU027	Prabhakaran. D	
27	17BAU028	Pradeesh. P	
28	17BAU029	Praveenkumar. P	
29	17BAU030	Rajagopal. P	
30	17BAU031	Rajeshwari . K	
31	17BAU032	Ramasamy Ahilan	
32	17BAU033	Riyazuddin. B	
33	17BAU034	Ruban Raj Kumar. K	
34	17BAU035	Sakthivel. E	
35	17BAU036	Santhosh. N	
36	17BAU037	Saranya.G	
37	17BAU038	Sheik Arfath. R	
38	17BAU039	Sindhuja. R	

39	17BAU040	Sivaram. C	
40	17BAU042	Sruthi. R	
41	17BAU043	Swathi. J	
42	17BAU044	Tarun Kumar. R	
43	17BAU046	Vasunthara. S	
44	17BAU047	Venkatesh. A	
45	17BAU048	Vennila. R	
46	17BAU049	Vetriselvan. K	
47	17BAU050	Vidhya Shree. G	
48	17BAU051	Vignesh. R	
49	17BAU052	Vignesh.C	
50	17BAU053	Vigneshwaran. M	
51	17BAU054	Vinodkumar. P	
52	17BAU055	Vinoth kumar. P	

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Department: **Management (UG)**
Subject Code: **17BAU503A** Semester: **V** Year: **2017-2020 Batch**
Subject: **TAXATION - I**

SEMINAR

S. No	Register No.	Name of the Student	SEMINAR TITLE
1	17BAU002	Abinaya.D	Direct Tax related news published in Newspaper or Journals must be collected and depicted in the chart must be presented
2	17BAU003	Abisha.J	
3	17BAU004	Aishwarya.S	
4	17BAU005	Akshay K Ajay	
5	17BAU006	AntoWilliam . P	
6	17BAU007	Aravind Kumar. P	
7	17BAU008	Aravind. M	
8	17BAU009	Balaji. P	
9	17BAU010	Elavarasan. K	
10	17BAU011	Govarthini. S	
11	17BAU012	Immanuvel. G	
12	17BAU013	Jegadheesh Kumar. S	
13	17BAU014	Kannan. M	
14	17BAU015	Kowsika. V	
15	17BAU016	Kumar. C	
16	17BAU017	Manikandan. G	

17	17BAU018	Manikandan. M	
18	17BAU019	Marimuthu. M	
19	17BAU020	Mohammed Ameen . B	
20	17BAU021	Nagoormohideen. S	
21	17BAU022	Nagulan. R. V	
22	17BAU023	Natarajan. S	
23	17BAU024	Naveen. N	
24	17BAU025	Naveeth.R	
25	17BAU026	Pandiyan. S	
26	17BAU027	Prabhakaran. D	
27	17BAU028	Pradeesh. P	
28	17BAU029	Praveenkumar. P	
29	17BAU030	Rajagopal. P	
30	17BAU031	Rajeshwari . K	
31	17BAU032	Ramasamy Ahilan	
32	17BAU033	Riyazuddin. B	
33	17BAU034	Ruban Raj Kumar. K	
34	17BAU035	Sakthivel. E	
35	17BAU036	Santhosh. N	
36	17BAU037	Saranya.G	
37	17BAU038	Sheik Arfath. R	
38	17BAU039	Sindhuja. R	

39	17BAU040	Sivaram. C	
40	17BAU042	Sruthi. R	
41	17BAU043	Swathi. J	
42	17BAU044	Tarun Kumar. R	
43	17BAU046	Vasunthara. S	
44	17BAU047	Venkatesh. A	
45	17BAU048	Vennila. R	
46	17BAU049	Vetriselvan. K	
47	17BAU050	Vidhya Shree. G	
48	17BAU051	Vignesh. R	
49	17BAU052	Vignesh.C	
50	17BAU053	Vigneshwaran. M	
51	17BAU054	Vinodkumar. P	
52	17BAU055	Vinoth kumar. P	

Reg. No................................

[11BBU403]

KARPAGAM UNIVERSITY

(Under Section 3 of UGC Act 1956)
COIMBATORE – 641 021
(For the candidates admitted from 2011 onwards)

BBM DEGREE EXAMINATION, APRIL 2013

Fourth Semester

BUSINESS MANAGEMENT (COMPUTER APPLICATIONS)

ELEMENTS OF DIRECT & INDIRECT TAX

Time: 3 hours | Maximum : 100 marks

PART – A (15 x 2 = 30 Marks)
Answer ALL the Questions

1. Define assessment year
2. What is the formula for calculating average tax rate?
3. Give the meaning for capital receipt?
4. Mr.Vivek passed his MBA on 15th June 2011 and joined his first job on 15th July @ Rs.40,000. Find out the salary income for the previous year 2011-2012, if it is due on 1st of every month.
5. What will be the tax treatment, if HRA is received by the Supreme or High court judges?
6. Compute Expected rental value.
   Mr.R has a house at Pune where Rent Control Act is applicable. Its MRV is Rs.1,08,000 p.a.,FRV is Rs.1,20,000 p.a., Standard Rent is Rs.1,02,000 p.a.
7. What is the rate of depreciation for book and patent rights?
8. From the information given below find out how much amount can be debited during the previous year 2011 – 2012.

Expenses	Amount & Date of Payment	Due Date
Employers contribution to provident fund	Rs.20,600 on 13.04.2012 by cheque which was encashed on 26.04.2012	15.04.2012

9. An asset was purchased in 1982-83 Rs.1, 20,000. Find out the indexed cost of acquisition if sold in 2011-2012.(CII for 1982-83 is 109 and for 2011-2012 is 785)
10. Mr.Ram hold the following information
    a) Rs.80000,10% (Tax free) debenture of a listed company
    b) Rs.1,00,000 11% Punjab Government loan
    Compute the income from interest on securities for the year ending 31.03.2012,

11. What is the rate of deduction for Rajiv Gandhi Foundation under section 80G?
12. From the following particulars of income of assessee how the losses shall be set-off and carry forward for the previous year ending on 31.03.2012
    Business Income Rs.10000
    Business Loss B/F Rs.1000
    Short Term capital loss Rs.2200
13. Define indirect tax
14. Give the meaning for VAT?
15. What is meant by input tax credit method?

PART B (5 X 14= 70 Marks)
Answer ALL the Questions

16. a. Define exempted income and also explain any fifteen exempted income with suitable examples?

Or

b. Discuss the residential status of an individual, HUF and all other person with suitable chart?

17. a. Mr. Maharaj is a production Manager of an industrial unit at Chennai. The particulars of a salary income are as under. Compute the taxable salary income of Mr. Maharaj

	Rs.
Basic salary	15000 p.m
Dearness Allowance	5000 p.m
Entertainment Allowance	1000 p.m
Medical Allowance	500 p.m
House Rent Allowance	4000 p.m
Rent paid for the house	5000 p.m

Car of 1.2 lt capacity provided by employer for private and official use.
Employer meets expenses of car
He and his employer contribute 15% of salary to RPF
He had taken interest free loan of Rs.15000 to purchase refrigerator

Or

b. Compute Income from house property from the information given below
   Municipal Rental value Rs.19000
   Rent received during the year Rs.24000
   Municipal Taxes (50% paid by the tenant) Rs.2500 p.a
   Expenses incurred on repairs
   a) By Owner Rs.3,000
   b) By tenant Rs.3,000
   Collection charges Rs.1000
   Date of completion of house 1-06-1999

18. a. From the following statement Compute the Professional Income of Dr.Kapil, if accounts are maintained on Cash system

Particulars	Rs.	Particulars	Rs.
To Dispensary Rent	36,000	By Vesting Fee	45,000
To Electricity charges	6,000	By Consultation Fees	1,25,000
To Telephone charges	6,000	By Sale of Medicine	72,000
To Salary to Nurses	36,000	By Dividend	5,000
To Depreciation on surgical equipment	6,000		
To Purchase of Medicine	36,000		
To Depreciation on X ray Machine	4,000		
To Income Tax	5,500		
To Donation	4,000		
To Motor car expenses	9,000		
To Depreciation on car	4,800		
To Net Income	93,700		
	2,47,000		2,47,000

Note:

i. Electricity charges include domestic bill of Rs.2500
ii. Half of the motor car expenses for professional use
iii. Telephone expenses include 40% for personal use
iv. Opening stock of the medicine was Rs.6000 and closing stock was Rs. 4,000

Or

b. Mr. S. Krishna received a gift of a house in Nov. 1997 from Mr. K. Hegde who had purchased it in Nov. 1977 for Rs. 6,30,000. Mr. K. Hegde renovated the house in March 1980 at a cost of Rs. 2,70,000. Its FMV on 1-4-1981 was Rs. 12,60,000. In 1979-80 Mr. Hegde had agreed to sell the house and had received Rs.1,00,000 as advance money. The sale could not materialize and advance money was forfeited. The house was further renovated in 1987-88 [C.I.I = 150] at a cost of Rs. 1,00,000. Mr. Krishna sold the house in December 2011 for Rs. 40,60,000 and paid Rs. 60,000 as brokerage. Compute his taxable capital gain if C.I.I for 1981-82 was 100, for 1997-98 was 331 and for 2011-12 it is 785.

19. a. Mr. Victor furnishes the following particulars of the incomes for the previous year 2011-2012 Compute the income from other sources

i. Equity dividend Rs. 600
ii. Income from letting on hire of buildings Rs. 17,000
iii. Interest on bank deposits Rs. 2,500
iv. Directors sitting fees Rs. 1,200

v. Ground rent Rs. 600
vi. Income from undisclosed sources Rs. 10,000
vii. Income from lotteries (gross) Rs. 10,000

The following deductions are claimed by him

a. Collection charges of dividend Rs. 20
b. Allowable depreciation on buildings Rs. 4,000
c. Fire insurance on building Rs. 100

Or

b. The following are the particulars of income of an assessee for the assessment year 2012-13. Compute the total income.

ASSESSMENT YEAR 2011-12	Rs.
Silver speculation loss	10,000
Hosiery business loss	6,000
Rolling steel mill profit (before charging of Depreciation of Rs. 10,000)	8,000
Profit from another business	5,000
Income from house property	2,000
ASSESSMENT YEAR 2011-12	**Rs.**
Gold speculation profit	20,000
Hosiery business loss	2,000
Rolling steel mill profit (before charging Depreciation of Rs. 10,000)	6,000
Profit from another business	16,000
Income from house property	2,000

20. a. Explain the assessment procedure in detail?

Or

b. Define VAT. Discuss the advantages and disadvantages of VAT?

Reg. No.................................

[13BAU303]

KARPAGAM UNIVERSITY

(Under Section 3 of UGC Act 1956)
COIMBATORE – 641 021
(For the candidates admitted from 2013 onwards)

BBA DEGREE EXAMINATION, NOVEMBER 2014

Third Semester

BUSINESS ADMINISTRATION

ELEMENTS OF DIRECT AND INDIRECT TAX

Time: 3 hours — Maximum : 60 marks

PART – A (10 x 2 = 20 Marks)
Answer any TEN Questions

1. Define Agricultural Income
2. Who is a non resident?
3. Define Gross Total Income
4. Compute Taxable House Rent Allowances from the information given below

Salary	Rs. 19,000 p.m.
DA	Rs. 800 p.m.
CCA	Rs. 600 p.m.
HRA	Rs. 1,900 p.m.
Commission on turnover achieved by him	Rs. 10,000

Situation : Living in his own house

5. Compute taxable part of annual accretion from the information given below
   Salary Rs. 6,000 p.m.
   Commission @ 1 % of turnover of Rs. 2,40,000
   Employers contribution to RPF Rs. 700 P.M.
   Interest credited to RPF balance @ 12% p.a. is Rs. 12,000
6. Compute Expected rental value.
   Mr.Puri has a house at Pune where Rent Control Act is applicable. Its MRV is Rs.1,10,000 p.a., FRV is Rs.1,20,000 p.a., Standard Rent is Rs.1,00,000 p.a.
7. From the information given below find out how much amount can be debited during the previous year 2013 – 2014.

Expenses	Amount & Date of Payment	Due Date
Advance Income Tax	Rs.62,000 on 26.07.2014	31.07.2014

8. What is the rate of depreciation for book and patent rights?
9. An asset was purchased in 1982-83 Rs.1,20,000. Find out the indexed cost of acquisition if sold in 2013-2014. (CII for 1982-83 is 109 and for 2013-2014 is 939)
10. Mr.Kamal received the following gift during the previous year 2013 - 2014. Compute the taxable income under the head Income from other sources.
    Received Rs.1,00,000 as gift from a friend on 1.06.2013
    Received a Microwave Costing Rs.14,500 as gift from his another friend.
11. From which income speculation loss can be set-off?
12. What is the rate of deduction under section 80 C?
13. Define indirect tax
14. Give the meaning for VAT?
15. What is meant by input tax credit method?

PART B (5 X 8= 40 Marks)
Answer ALL the Questions

16. a. Mr. Rakesh is a production Manager of an industrial unit at Delhi. The particulars of a salary income are as under. Compute the taxable salary income of Mr. Rakesh for the previous year 2013 – 2014

	Rs.
Basic salary	25,000 p.m
Dearness Allowance (enters)	5,000 p.m
Education Allowance	1,000 p.m
Hostel Allowance	500 p.m
House Rent Allowance	4,000 p.m
Rent paid for the house	5,000 p.m

Free Car of 1.2 lt capacity provided by employer for private and official use.
Employer meets expenses of car
He and his employer contribute 15% of salary to RPF
He had taken interest free loan of Rs.15000 to purchase refrigerator
His two children are studying in the school
One of his son is staying in the hostel.

Or

b. Compute income from house property from the particulars given below for the assessment year 2014 - 15 :

	Rs.
Municipal rental value	24,000 p.a
Actual rent received	30,000 p.a
Municipal taxes	2,400 p.a
Date of completion	31-3-2009
Date of letting	1-4-2009
Fire insurance premium (due)	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.
2013-14 Rs. 10,000
Interest on delayed payment of interest 1,000

17. a. Mr. S. Krishna received a gift of a house in Nov. 1997 from Mr. K. Hegde who had purchased it in Nov. 1977 for Rs. 6,30,000. Mr. K. Hegde renovated the house in March 1980 at a cost of Rs. 2,70,000. Its FMV on 1-4-1981 was Rs. 12,60,000. In 1979-80 Mr. Hegde had agreed to sell the house and had received Rs.1,00,000 as advance money. The sale could not materialize and advance money was forfeited. The house was further renovated in 1987-88 [C.I.I = 150] at a cost of Rs. 1,00,000. Mr. Krishna sold the house in December 2013 for Rs. 45,60,000 and paid Rs. 60,000 as brokerage. Compute his taxable capital gain if C.I.I for 1981-82 was 100, for 1997-98 was 331 and for 2013-14 it is 939.

Or

b. Compute business income of Mr.Raja Following is the profit and loss account of a merchant for the year ending 31.03.2014

P&L A/C

Particulars	Rs.	Particulars	Rs.
Office salary	6, 500	Gross profit	36, 750
Bad debts written off	1, 700	Commission	1, 250
Provision for bad debts	3, 000	Discounts	500
Advertisement	3, 800	Sundry Receipts	200
Fire insurance premium (HP)	550	Rent of building	3, 600
General expenses	2, 750	Profit on sale land	3, 000
Depreciation	1, 200		
Interest on capital	2, 000		
Interest on bank loan (due)	1, 300		
Net profit	22, 500		
	45,300		45, 300

The amount of depreciation is Rs. 1,100. Interest on bank loan was paid on 1.08.2013. Due date of filing of return is 31.07.2013 .

18. a. Mr. Victor furnishes the following particulars of the incomes for the previous year 2013-2014 Compute the income from other sources
i. Equity dividend Rs. 500
ii. Income from letting on hire of buildings Rs. 20,000
iii. Interest on bank deposits Rs. 2,500
iv. Directors sitting fees Rs. 1,200
v. Ground rent Rs. 1,000
vi. Income from undisclosed sources Rs. 10,000
vii. Income from lotteries (gross) Rs. 10,000

The following deductions are claimed by him
a. Collection charges of dividend Rs. 50
b. Allowable depreciation on buildings Rs. 3,000
c. Fire insurance on building Rs. 200 .

Or

b. The following are the particulars of income of an assessee for the assessment year 2014-15. Compute the total income.

ASSESSMENT YEAR 2013-14	**Rs.**
Gold speculation loss	15,000
Hosiery business loss	6,000
Rolling steel mill profit (before charging of Depreciation of Rs. 9,000)	8,000
Profit from another business	5,000
Income from house property	2,000
ASSESSMENT YEAR 2014-15	**Rs.**
Share speculation profit	20,000
Hosiery business loss	2,000
Rolling steel mill profit (before charging Depreciation of Rs. 11,000)	6,000
Profit from another business	16,000
Income from house property	2,000

19. a. Elaborately discuss the excise duty procedures?

Or

b. Define VAT. Discuss the advantages and disadvantages of VAT?

20. **Compulsory : -**

Define exempted income and explain any fifteen exempted income with suitable examples?

Reg. No..................................

[14BAU303]

KARPAGAM UNIVERSITY

Karpagam Academy of Higher Education
(Established Under Section 3 of UGC Act 1956)
COIMBATORE – 641 021
(For the candidates admitted from 2014onwards)

BBA DEGREE EXAMINATION, NOVEMBER 2015

Third Semester

BUSINESS ADMINISTRATION

ELEMENTS OF DIRECT AND INDIRECT TAX

Time: 3 hours Maximum : 60 marks

PART – A (20 x 1 = 20 Marks) (30 Minutes)
(Question Nos. 1 to 20 Online Examinations)

PART B (5 x 8 = 40 Marks) (2 ½ Hours)
Answer ALL the Questions

21. a. Define exempted income and explain any fifteen exempted income with suitable examples?

Or

b. Explain the residential status of an Individual, HUF and all other persons with suitable chart?

22. a. Mr. Ramesh is a Marketing Manager of an industrial unit at Pune. The particulars of a salary income are as under. Compute the taxable salary income of Mr. Ramesh for the previous year 2014 – 2015

	Rs.
Basic salary	22,000 p.m
Dearness Allowance (enters)	4,000 p.m
Education Allowance	1,000 p.m
Hostel Allowance	600 p.m
House Rent Allowance	4,500 p.m
Rent paid for the house	5,000 p.m

Free Car of 1.3 lt capacity provided by employer for private and official use.
Employer meets expenses of car
He and his employer contribute 14% of salary to RPF
He had taken interest free loan of Rs.15,000 to purchase refrigerator

His two children are studying in the school
One of his son is staying in the hostel.

Or

b. The particulars of a residential house completed on 31st May 2010 are given below:

	Rs.
Rent	1,500 p.m
Municipal taxes paid	1,800 p.a.
Ground rent	100
Insurance	800
Interest on amount borrowed for construction of this house	1,000 p.a.
Collection charges actually paid	300

The assessee mortgaged the house for Rs. 30,000 to meet the expenses of his daughter's marriage and paid an interest of Rs. 3,000 on the mortgage loan during the year. The assessee also claimed that he had not realised rents from his tenants to the extent of Rs. 3,000 and he proved his claim to the entire satisfaction of the assessing officer that that conditions for its admissibility were satisfied.
Compute the Income from House Property for the previous year 2014 – 2015.

23. a. Mr. Kannan received a gift of a house in December 1997 from Mr. Kapil who had purchased it in Nov. 1977 for Rs. 6,30,000. Mr. Kapil renovated the house in March 1980 at a cost of Rs. 2,70,000. Its FMV on 1-4-1981 was Rs. 12,60,000. In 1979-80 Mr. Kapil had agreed to sell the house and had received Rs.1,00,000 as advance money. The sale could not materialize and advance money was forfeited. The house was further renovated in 1987-88 [C.I.I = 150] at a cost of Rs. 1,00,000. Mr. Kannan sold the house in December 2014 for Rs. 55,60,000 and paid Rs. 60,000 as brokerage. Compute his taxable capital gain if C.I.I for 1981-82 was 100, for 1997-98 was 331 and for 2014-15 it is 1024.

Or

b. Compute business income of Mr.Raja, Following is the Profit and Loss account of a merchant for the year ending 31.03.2015.

P&L A/C			
Particulars	**Rs.**	**Particulars**	**Rs.**
Office salary	6, 500	Gross profit	36, 750
Bad debts written off	1, 700	Commission	1, 250
Provision for bad debts	3, 000	Discounts	500
Advertisement	3, 800	Sundry Receipts	200
Fire insurance premium (HP)	550	Rent of building	3, 600
General expenses	2, 750	Profit on sale land	3, 000
Depreciation	1, 200		
Interest on capital	2, 000		
Interest on bank loan (due)	1, 300		
Net profit	22, 500		
	45,300		45, 300

The amount of depreciation is Rs. 1,150. Interest on bank loan was paid on 1.8.2014. Due date of filing of return is 31.07.2014.

24. a. Mr. Vimal furnishes the following particulars of the incomes for the previous year 2014-2015. Compute the income from other sources

i. Equity dividend Rs. 700
ii. Income from letting on hire of buildings Rs. 22,000
iii. Interest on bank deposits Rs. 2,000
iv. Directors sitting fees Rs. 1,300
v. Ground rent Rs. 2,000
vi. Income from undisclosed sources Rs. 11,000
vii. Income from lotteries (gross) Rs. 12,000

The following deductions are claimed by him

1. Collection charges of dividend Rs. 150
2. Allowable depreciation on buildings Rs. 2,900
3. Fire insurance on building Rs. 200

Or

b. The following are the particulars of income of an assessee. Compute the total income.

ASSESSMENT YEAR 2014-15	**Rs.**
Gold speculation loss	16,000
Hosiery business loss	6,100
Rolling steel mill profit (before charging of Depreciation of Rs. 9,000)	7,000
Profit from another business	5,000
Income from house property	2,000
ASSESSMENT YEAR 2015-16	**Rs.**
Share speculation profit	22,000
Hosiery business loss	2,100
Rolling steel mill profit (before charging Depreciation of Rs. 11,000)	7,000
Profit from another business	16,000
Income from house property	2,000

25. a. Elaborately discuss the excise duty procedures?

Or

b. Define VAT. Discuss the advantages and disadvantages of VAT?

Reg. No................................

[15BAU302]

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BBA DEGREE EXAMINATION, NOVEMBER 2016

Third Semester

BUSINESS ADMINISTRATION

DIRECT TAX

Time: 3 hours　　　　Maximum : 60 marks

PART – A (20 x 1 = 20 Marks) (30 Minutes)
(Question Nos. 1 to 20 Online Examinations)

PART B (5 x 8 = 40 Marks) (2 ½ Hours)
Answer ALL the Questions

21\. a. Explain the various residential status of an Individual

Or

b. What is the Scope of income?

22\. a. Mr. R is General Manager of a company in Madras and draws Rs. 8,500 per month as salary. He is provided with a house for which the company pays Rs. 60,000 pa as rent. Furniture and fittings costing Rs. 30,000 are also provided. He is also provided with a car of 1.6 litres rating by his employer and the car is used both for private and official purposes. All expenses including salary of driver are borne by the employer.
The employer has also provided him services of sweeper @ Rs 140/-pm, a watchman @Rs 160/-pm and Gardner @ 600/-pm.
He is a member of recognised provident fund to which he contributes 12% of salary and a similar contribution is made by the employer. Interest on provident fund balance at 14% credited to his provident fund account amounted to Rs. 4,200. His son is studying in an engineering college and the expenditure of Rs. 24,000 pa on this account was met by the employer.
Compute his salary income for the previous year 2015-2016. Find qualified amount u/s 80C. LIC premium paid on own life Rs 80,000, own contribution to super annuation fund Rs 60,000.

Or

b. Mr landlord is the owner of two houses. In respect of these he has furnished the following particulars

Particulars	House A	House B
Date of completion of construction	13.3.1996	1.7.2000
Municipal rental Value	3,60,000	6,00,000
Actual rental Value	3,00,000	60,000pm
Municipal taxes paid	36,000	30,000due
Ground rent	1,000	7,800
Interest on loan taken for construction	50,000	1,82,000

Compute his income from house property for the assessment year 2016- 2017. Out of the municipal taxes of house A Rs 18000 are paid by the tenant.

23\. a. The following is the Profit and Loss account of Mr Roy for the year

Particular	Rs.	Particular	Rs.
To rent and taxes	450	By gross profit	14,623
To establishment staff	1,750	By bank interest on personal deposit	577
To rent	600		
To household expenses	1,450		
To discount	250		
To advertisement	200		
To income tax	480		
To postage & stationery	810		
To fire insurance	150		
To gifts and presents	160		
To charity and donations to approved institutions	1,140		
To purchase of plant not yet installed	1,500		
To repairs of furniture	50		
To interest on loan	1,000		
To LIC	600		
To reserve for doubtful debts	700		
To interest on capital	250		
To net profit	3,660		
Total	15,200		15,200

You are required to ascertain the business income of Mr Roy

Or

b. K a lawyer by profession keeps his cash book as per cash system of accounting. The following is the summary of his cash book for the year ended 31.3.2016

Particular	Amount	Particular	Amount
To balance	5,000	By rent of chamber	2,400
To fees	35,000	By Car expenses	3,600
To Remuneration as examiner	3,000	By Household expenses	12,000
To interest on bank deposits	2,500	By local taxes for the house	1,200
To Rent from House property	8,000	By repairs of the house	4,000
To dividend	1,600	By Lic for self	4,800
		By Cost of journals	4,000
		By medical treatment of self	5,000
		By balance	18,100
	55,100		55,100

Additional information: a. 1/3 of the house is used by K for his own residence. b. K is insured for Rs. 40,000 c. K has to get medical treatment for an eye ailment caused by intensive study of law books. d. ½ of the car expenses relate to personal use of the car by K. Depreciation computed at the prescribed rate on the written down value of the car is Rs 2,000. Compute his income from profession.

24. a. Sri. V sells a residential house property in Madurai for Rs 90,00,000 on May 20,2015 which was purchased by him on April 25, 1965 for Rs. 50,000. The fair market value on April 1, 1981 was Rs. 2,00,000. He purchased a new residential house property for Rs. 10,00,000 on 28th March 2016 house is not fully constructed and deposited Rs. 5,00,000 on July 31st 2016 (being the last date for furnishing return of income for the assessment year 2016-17) in a bank account specified for the purpose of section 54. Assuming that Sri V withdraws from the deposit account and completes the construction of a house property on January 2017, for Rs 400000 withdrew the unutilised amount in the deposit account after May 2018. Compute the amount of capital Gains chargeable to tax. CII for 1981-82 is 100, 2015-16 is 1081.

Or

b. From the following particulars of Mr.Edward for the previous year ended 31st March 2016, compute his total income for the assessment year 2016-17. He received

1. Director's fee from a company Rs. 10,000
2. Interest on Bank deposits Rs. 3,000
3. Income from undisclosed source Rs. 12,000
4. Winnings from lotteries net Rs. 82,200
5. Royalty on a book written by his Rs. 8,000
6. By giving lectures in functions Rs. 5,000

7. Interest on loan given to a relative Rs. 7,000
8. Interest on Tax free debentures of a company (listed in recognised stock exchange) net Rs. 3,560
9. Dividend on shares Rs. 6,400
10. Interest on post office savings bank a/c Rs. 500
11. Interest on Government securities Rs. 2,200
12. A sum of Rs. 26,000 is received as gift on 1.8.15 from a friend
13. A sum of Rs. 50,000 is received as gift on 1.10.15 from his sister

He paid Rs 20 or collection of dividend and Rs 1000 for typing the manuscript of book written by him. Mr. Edward has following other transaction: a. House property 'A' purchased for Rs 6 lakh (stamp duty value Rs 6.5lakh) b. Plot of land purchased for Rs 7 lakh (stamp duty value Rs 9 lakh)

25. a. A an individual submits the following information relevant or the AY 2016-17

Particulars	Profit	Loss
Salary income computed	84,000	
Income from house property (computed) house X	30,000	
House Y		34,000
House Z		42,000
Profits and gains of business or profession		
Business A	16,000	
Business B		20,000
Business C speculation	22,000	
Business D speculation		46,000
Capital gains		
STCG	12,000	
STCL		56,000
LTCG	25,000	
Income from other sources		
Income from card games	38,000	
Income from betting	30,000	
Loss from card games		14,020
Loss on maintenance of race horses		12,000
Interest on securities	8,000	

Compute the gross total income of A for the AY 2016-17

Or

b. Explain the various stages in the process of assessment
