

CA - INTERMEDIATE

19th Edition

INCOME TAX

Fast Track Revision Book including Practice Sets



CA SURAJ AGRAWAL

CA Rank Holder, CPA (USA), B.COM (H)

Education is a Journey

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SURAJ AGRAWAL TAX CLASS

32 Rank Holder from Tax Batch of CA Suraj Agrawal Sir

 CA SURAJ AGRAWAL-SATC



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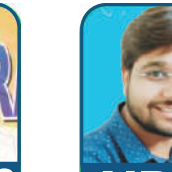
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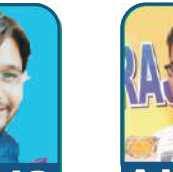
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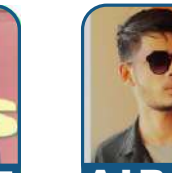
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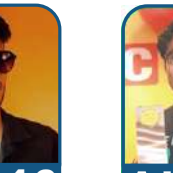
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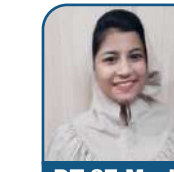
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Mehak Goyal



IDT-90 Marks

Sobhit Chauhan
CMA Final



DT-87 Marks

Zeinab Raja
CMA Intermediate



Tax-84 Marks

Kamna Gupta
CA Intermediate



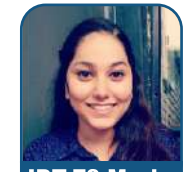
DT-81 Marks

Bhawna Bisht
CMA Final



DT-81 Marks

Shivek Madaan
CMA Final



IDT-79 Marks

Preeti Rawat
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SURAJ AGRAWAL TAX CLASS

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THIS **REVISION BOOK** HAS BEEN A
REALITY ONLY BECAUSE OF MY
FAMILY & STUDENTS.

CA SURAJ AGRAWAL

PROFILE – CA SURAJ AGRAWAL

CA Suraj Agrawal is a Commerce Graduate [B.Com (H)] from Kolkata University and has qualified CA in November 2005 in **First Attempt** from Kolkata. He has also secured All India **27th Rank in CA-Foundation** – 1st level (First Attempt – 70% marks).

Besides CA, he has completed **Certification Course of International Taxation** of the ICAI in 2009. He has also qualified **CPA (Certified Public Accountant) examination from AICPA (USA)** in 2009 with more than 90 Marks in each of four papers in First Attempt [*Presently, he is inspired to complete CIMA, London as well as LLM in International Taxation (UK) by Year 2024*]

He has started his career by joining Direct Tax Department of **Reliance Industries Limited, Mumbai** and worked for near 2 years in core tax team. He has also worked in Taxation Division of **Chaturvedi & Shah (Chartered Accountants), Delhi** followed by Tax Division of **Ernst & Young, Gurgaon, India** (A Leading Big 4 Firm having International Presence). During the working tenure of more than 4 years, he is exposed to in-depth theoretical and practical knowledge of Direct Taxation & has a consultancy exposure in various industries including Energy - Oil & Gas, Airlines, Retail, Infrastructure and Shipping Industries.

With the above academic and practical knowledge, he is in teaching profession from **more than 12 years** to serve professional students (taught **20,000 CA/CMA**s Students till date). *His in-depth coverage of legal provisions in Tax with practical approach is very well recognized among the students.* He is also an associate member of ICAI and is also providing services as Tax Consultant to various organisations.

He was also a member in WTO, FEMA & International Tax Study Group of the NIRC of the ICAI for the year 2011-12 and was member of *International Taxation & FEMA Research Study Group of NIRC of the ICAI* for the year 2010-11. He is regularly contributing tax articles and various opinions on subjects of Direct Taxation including International Taxation in various leading magazines [Taxmann] and professional forums.

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PREFACE

Taxation is a dynamic subject, which is not only a vast subject but also difficult to comprehend in view of frequent amendments. Yet it is the scoring subject of your syllabus. In addition, practice in the field of Taxation is also highly remunerative.

My association with the students has helped me to bring this book in its present form – simplified, comprehensive and easy to understand.

The present edition of this book is designed to bridge the gap between theory & applications and incorporates the following:

- ❖ **Updated with Finance Act 2021 (Assessment Year 2022-23)**
- ❖ Covers entire **Income Tax** syllabus with Chapter-wise short notes
- ❖ Contains **important practical problems** with solutions (master level questions) – **weightage 10 marks**

Hope this book serves the purpose of the students. I shall be thankful to the readers for their suggestions, criticism and feedback if any.

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ACKNOWLEDGEMENT

This book is a result of sincere efforts of our family members, colleagues, associates, well-wishers and students, whose contribution cannot go unacknowledged.

Master Reyaan, my wife **CA Monika Agrawal** and my mother deserve special mention for the time (on which they had the first right) they allowed me for this book.

I dedicate this book to my beloved late grandparents & Papa.

CA Suraj Agrawal

For CA INTERMEDIATE - MAY & NOV 2022 Exam
Assessment Year 2022-23 (updated with Finance Act 2021)
Updated on 25.04.2022 (19th Edition - 1st Print)

“One more step towards success”

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THANK YOU!
ALL THE BEST FOR YOUR EXAM!!

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MEANING OF RELATIVE AT VARIOUS PLACES

Income from Salary

S. No.	Particulars	Meaning of Relative
1.	Perquisite	Member of household a) Spouses b) Children and their spouses c) Parents d) Servants and dependents
2.	Medical Facilities and Leave Travel Concession	a) The spouse and children b) Parents, Brothers and sister of the individual wholly or mainly dependent on the individual

Profits & Gains of Business or Profession

3.	Payments to specified persons [Section 40A(2)]	Specified persons means relative, partner, director or person having substantial interest or relative of any such person (Any relative i.e., Spouse, any brother, Sister lineal ascendant or descendant of such individual)
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Income from Other Sources

4.	Gifts (in money) [Section 56(2)]	a) Spouse of the individual; b) Brother or sister of the individual; c) Brother or sister of the spouse of the individual; d) Brother or sister of either of the parents of the individual; e) Any lineal ascendant or descendent of the individual; f) Any lineal ascendant or descendent of the spouse of the individual; g) Spouse of the person referred to in clauses (b) to (f)
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Clubbing of Income

5.	Substantial Interest [Section 64(1)(ii)]	Individual, Spouse, Brother, Sister or lineal ascendant & descendent
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Deductions

6.	LIP, ULIP, PPF [Section 80C]	Himself, Spouse, Children
7.	Medical insurance premium [Section 80D]	Individual, Spouse, Parents (whether dependent or not), dependent children
8.	Section 80DD & Section 80DDB	Dependent Relative: Spouse, Children, Parents, Brother & Sisters
9.	Section 80E	Spouse, Children of Individual, Legal Guardian

SURAJ AGRAWAL TAX CLASS

APPLICABLE RATE OF TAX – AY 2022-23

(A) Individuals [except (B) & (C)], HUF, AOP's & BOI's & every Artificial Juridical Person:

<u>TOTAL INCOME</u>	<u>AMOUNT OF TAX</u>
Up to ₹ 2,50,000	NIL
On next ₹ 2,50,001 - 500,000	5%
On next ₹ 5,00,001 - 10,00,000	20%
On the balance amount [Above ₹ 10,00,000]	30%

(B) For a Resident individual, being a Sr. Citizen, Age ≥ 60 yrs (but less than 80 years) at any time during the PY.

<u>TOTAL INCOME</u>	<u>AMOUNT OF TAX</u>
Up to ₹ 3,00,000	NIL
On next ₹ 300,001 - ₹ 500,000	5%
On next ₹ 500,001 - ₹ 10,00,000	20%
On the balance amount [Above ₹ 10,00,000]	30%

(C) For a resident individual, being a **Very Sr. Citizen**, Age ≥ 80 yrs at any time during the PY.

<u>TOTAL INCOME</u>	<u>AMOUNT OF TAX</u>
Up to ₹ 5,00,000	NIL
On next ₹ 500,001 – ₹ 10,00,000	20%
On the balance amount ₹ 10,00,001 & above	30%

Above rate is normal rate or slab rate for Individuals/HUFs. It is applicable when Individuals/HUF has not opted for the provisions of Section 115BAC (Alternate tax regime).

Surcharge rate for Individual / HUF / AOP / BOI / Artificial Juridical Person

S.No.	Total Income	Surcharge Rate on Income Tax related to	
		Dividend Income & Income covered u/s 111A & 112A	Other Income
1	Total Income (including dividend income & capital gains chargeable to tax under Section 111A & 112A) <u>exceeds ₹ 50 Lakhs but not exceeding ₹ 1 crores</u>	10%	10%
2	Total Income (including dividend income & capital gains chargeable to tax under Section 111A & 112A) <u>exceeds ₹ 1 crores but not exceeding ₹ 2 crores</u>	15%	15%
3	Total Income (including dividend income & capital gains chargeable to tax under Section 111A & 112A) <u>exceeds ₹ 2 crores but not covered below</u>	15%	15%
4	Total Income (excluding dividend income & capital gains chargeable to tax under Section 111A & 112A) <u>exceeds ₹ 2 crores but not exceeding ₹ 5 crores</u>	15%	25%
5	Total Income (excluding dividend income & capital gains chargeable to tax under Section 111A & 112A) <u>exceeds ₹ 5 crores</u>	15%	37%

In all above cases, Income Tax (including surcharge, if any) shall be further increased by Health and Education Cess @ 4%.

Rebate of ₹ 12,500 for resident individuals having total income up to ₹ 5 lakh [Section 87A]

In case of other category of Persons

OTHERS	AMOUNT OF TAX	SURCHARGE
FIRM & LLP	@30%	@ 12% of Tax Payable if TOTAL INCOME > ₹ 1 Crore
Local Authority	@30%	@ 12 % of Tax Payable if TOTAL INCOME > ₹ 1 Crore
Co-operative Societies (Not opting for the provisions of Section 115BAD)	On first Rs.10,000 @10% On next Rs.10,000 @20% For the Balance @30%	@ 12 % of Tax Payable if TOTAL INCOME > ₹ 1 Crore
Companies (Not opting for the provisions of Section 115BA / 115BAA / 115BAB)	Domestic Co.: @30% (If Total Turnover / Gross receipts during PY 19-20 does not exceeds ₹ 400 Crore, then Tax rate is 25%)	@ 7 % of Tax Payable if TOTAL INCOME > ₹ 1 Crore @ 12 % of Tax Payable if TOTAL INCOME > ₹ 10 Crore
	Foreign Co.: @40%	@ 2 % of Tax Payable if TOTAL INCOME > ₹ 1 Crore @ 5 % of Tax Payable if TOTAL INCOME > ₹ 10 Crore

In all above cases, Income Tax (including surcharge, if any) shall be further increased by Health and Education Cess @ 4%

CONCEPT OF MARGINAL RELIEF – Applicable in case of all assessee

The additional amount of Income tax payable with surcharge in excess of income over ₹ 1 Crore should not be more than the amount in excess of ₹ 1 Crore.

Calculation of Marginal Relief:

Marginal Relief =	Tax on Total Income including Surcharge Less: (Total Income - ₹ 1 Crore) + (Tax on ₹ 1 Crore including surcharge if applicable)
Tax Payable =	Tax on Total Income including Surcharge Less: Marginal Relief as computed above Add: H&EC

Note: Marginal Relief is now available at 5 levels – ₹ 50 Lakhs / ₹ 1 Crores / ₹ 2 Crores / ₹ 5 Crores / ₹ 10 Crores

Rounding-off of Income [Section 288A]:

The Total Income computed under this Act, shall be rounded off to the nearest multiple of ₹ 10.

Rounding-off of Tax [Section 288B]

BASIS OF CHARGE - Charge of income-tax (Section 4)

Section 4 of the Income-tax Act, 1961 is the charging section which provides that:

- i. Tax shall be charged at the rates prescribed for the year by the Annual Finance Act or the Income-tax Act, 1961 or both.
- ii. The charge is on every person specified under section 2(31);
- iii. Tax is chargeable on the total income earned during the previous year and not the assessment year. (There are certain exceptions);
- iv. Tax shall be levied in accordance with and subject to the various provisions contained in the Act.

This section is the back bone of the law of income-tax in so far as it serves as the most operative provision of the Act. The tax liability of a person springs from this section.

CERTAIN CASES WHEN INCOME OF A PREVIOUS YEAR WILL BE ASSESSED IN THE PREVIOUS YEAR ITSELF – EXCEPTION TO SECTION 4

The income of an assessee for a previous year is charged to income-tax in the assessment year following the previous year. However, in a few cases, this rule does not apply and the income is taxed in the previous year in which it is earned. **The exceptions are as follows:**

- (1) Income of a Non resident from Shipping Business;
- (2) Income of persons Leaving India either permanently or for a long period of time;
- (3) Income of bodies formed for short duration;
- (4) Income of a person trying to alienate his assets with a view to avoiding payment of tax **and**
- (5) Income of a discontinued Business

PERSON [Section 2(31)]

The definition is inclusive i.e. a person includes,

- (A) An Individual
- (B) A Hindu Undivided family [HUF]
- (C) A Company
- (D) A Firm (including LLP)
- (E) An AOP or a BOI, whether incorporated or not
- (F) A local authority
- (G) Every artificial juridical person, not covered above, but which are separate entities in the eye of law

Definition of “Assessee”

As per **Section 2(7)**, “assessee” means a person by whom any tax or any other sum of money is payable under the Income-tax Act, 1961. In addition, the term includes –

- Every person in respect of whom any proceeding under the Income-tax Act, 1961 has been taken for the assessment of –
 - ✓ his income; or
 - ✓ the income of any other person in respect of which he is assessable; or
 - ✓ the loss sustained by him or by such other person; or
 - ✓ the amount of refund due to him or to such other person.
- Every person who **is deemed to be an assessee** under any provision of the Income-tax Act, 1961;
- Every person who **is deemed to be an assessee-in-default** under any provision of the Income-tax Act, 1961.

ALTERNATIVE TAX REGIME FOR INDIVIDUAL & HUF**NEW SECTION 115BAC [INSERTED BY FINANCE ACT 2020]****(A) Option to pay income-tax at concessional tax slab rates: [OPTIONAL SCHEME]**

As per Section 115BAC, individuals or HUFs have an option to pay tax in respect of their total income (other than income chargeable to tax at special rates under "Chapter XII – SECTION 111A to SECTION 115BBG" such as section 111A, 112, 112A, 115BB, 115BBE etc.) at the following concessional rates, subject to certain conditions specified under section 115BAC(2) –

S. NO.	Total Income	Rate of Tax
1	Upto ₹ 2,50,000	NIL
2	From ₹ 2,50,001 to ₹ 5,00,000	5%
3	From ₹ 5,00,001 to ₹ 7,50,000	10%
4	From ₹ 7,50,001 to ₹ 10,00,000	15%
5	From ₹ 10,00,001 to ₹ 12,50,000	20%
6	From ₹ 12,50,001 to ₹ 15,00,000	25%
7	Above ₹ 15,00,000	30%

(B) Conditions to be satisfied for availing concessional rates of tax:

(1) **Certain deductions/exemptions not allowable:** Section 115BAC(2) provides that while computing total income, **the following deductions/exemptions would not be allowed**, if an individual or HUF opts for concessional rates of taxes under section 115BAC(1):

Section	Exemption/Deduction	SATC Hint (related Chapters)
10(5)	Leave Travel Concession	Salary
10(13A)	House Rent Allowances	Salary
10(14)	Special Allowances (other than those as may be prescribed) – few is permitted	Salary
10(17)	Allowances to MP/MLA	IOS
10(32)	Exemption in respect of income of minor child included in the income of parent	Clubbing
10AA	Deduction to units in SEZ (Tax holiday)	SEZ Unit

16	Deduction against Gross Salary Section 16(ia) - Statutory Deduction of ₹ 50,000 Section 16(ii) - Entertainment allowances deduction Section 16(iii) - Professional Tax deduction	Salary
24(b)	Interest on Housing Loan in respect of one or two self-occupied properties	House Property
32(1)(ia)	Additional Depreciation	Depreciation/ PGBP
32AD	Investment Allowances (Investment in notified Backward Area)	Depreciation/ PGBP
33AB	Tea/Rubber/Coffee development Account	PGBP
33ABA	Site Restoration Fund	PGBP
35(1)(ii), (ia), (iii) & 35(2AA)	Deduction in respect to contribution to Notified/Approved institutes etc for Scientific Research etc	PGBP
35AD	Capital Expenditure related to Specified Business	PGBP
35CCC	Deduction in respect of expenditure incurred on notified agriculture project	PGBP
57(ia)	Deduction in respect of Family Pension	IOS
80C to 80U	Deduction under chapter VI-A <u>except</u> Section 80CCD(2) : Employer's contribution to NPS Section 80JJAA : Employment of New Employee Section 80LA(1A) : Units in IFSC	Deduction under Chapter VI-A

(2) Certain losses not allowed to be set-off:

While computing total income, set-off of any loss -

- i. carried forward or depreciation from any earlier assessment year, if such loss or depreciation is attributable to any of the deductions referred to in (1) above; or
- ii. under the head house property with any other head of income;

would not be allowed. **[Carry forward of such losses are also not allowed]**

(3) Depreciation or additional depreciation:

Depreciation u/s 32 is to be **determined in the prescribed manner**. Depreciation in respect of any block of assets entitled to more than 40%, **would be restricted to 40%** on the written down value of such block of assets.

Additional depreciation u/s 32(1)(ia), however, cannot be claimed.

Additional points:

In case of an individual or HUF opting for section 115BAC, total income should be computed **without set-off of any loss under the head House Property or any loss brought forward or depreciation from any earlier assessment year**, where such loss or depreciation is attributable to any of the deductions listed in (1) above **[Such loss and depreciation would be deemed to have been already given effect to and no further deduction for such loss or depreciation shall be allowed for any subsequent year]**

(C) Time limit for exercise of option [Section 115BAC(5)]:

- (1) **In case of an individual or HUF having no income from business or profession:** Where such individual or HUF has no business income, the option has to be exercised along with the return of income to be furnished under section 139(1) for a previous year relevant to the assessment year.

[In effect, such individual or HUF can choose whether or not to exercise the option in each previous year. He may choose to exercise the option in one year and not to exercise the option in another year.]

- (2) **In case of an individual or HUF having income from business or profession:** The option has to be exercised on or before the due date specified under section 139(1) for furnishing the return of income for **any previous year** relevant to assessment year 2021-22 or any later assessment year and **once such option is exercised, it would apply to subsequent assessment years.**

The option **can be withdrawn only once** where it was exercised by the individual or HUF having business income for a previous year other than the year in which it was exercised.

Thereafter, the individual or HUF shall never be eligible to exercise option under this section, **except where such individual or HUF ceases to have any business income in which case, option under (i) above shall be available.**

(D) Consequences for failure to satisfy conditions mentioned in section 115BAC(2):

- (1) **In case of an individual or HUF having no income from business or profession:** On failure to satisfy the **conditions mentioned in point B above** in any previous year, the option exercised would be **invalid** in respect of the assessment year **relevant to that previous year.**

Consequently, the other provisions of the Income-tax Act, 1961 would apply as if the option had not been exercised for the assessment year relevant to that previous year.

- (2) **In case of an individual or HUF having income from business or profession:** On failure to satisfy the conditions **mentioned in point B above** in any previous year, the option exercised would be **invalid** in respect of the assessment year relevant to that previous year **and subsequent assessment years.**

Consequently, the other provisions of the Income-tax Act, 1961 would apply to the person as if the option had not been exercised for the assessment year relevant to **that previous year and subsequent assessment years.**

(E) AMT liability not attracted:

Individuals or HUFs exercising option u/s 115BAC are not liable to alternate minimum tax u/s 115JC.

(F) Other Points:

- (1) It may be noted that in case of individuals or HUFs not having income from business or profession, the total income and tax liability (including provisions relating to AMT, if applicable under normal provisions) **may be computed every year both in accordance with normal provisions of the Income-tax Act, 1961 and in accordance with the provisions of section 115BAC**, in order to determine which is more beneficial and accordingly decide whether or not to opt for section 115BAC for that year.
- (2) For the purpose of tax deduction at source, the **CBDT has clarified that an employee, having income other than income under the head "Profits and gains of business or profession" and intending to opt for the concessional rate under section 115BAC, is required to intimate to the deductor**, being his employer, of such intention for each previous year and upon such intimation, the deductor shall compute his total income, and make TDS thereon in accordance with the provisions of section 115BAC. **If such intimation is not made by the employee, the employer shall make TDS without considering the provisions of section 115BAC.**

It is also clarified that the intimation so made to the deductor **shall be only for the purposes of TDS during the previous year and cannot be modified during that year.** However, the intimation would not amount to exercising option in terms of section 115BAC and the person shall be required to do so alongwith the return to be furnished under section 139(1) for that previous year.

Thus, option at the time of filing of return of income under section 139(1) could be different from the intimation made by such employee to the employer for that previous year.

Further, in case of a person who has income under the head "Profit and gains of business or profession" also, the option for taxation under section 115BAC **once exercised for a previous year at the time of filing of return of income under section 139(1) cannot be changed for subsequent previous years except in certain circumstances.**

Accordingly, a person having income under the head "Profits and gains from business or profession" also **shall also intimate to his employer.** However, the intimation to the employer in his case for subsequent previous years **must not deviate from the option under section 115BAC once exercised in a previous year.**

(3) Sub-rule 7(iii) to Rule 3 is amended (Perquisite Value – Salaries Head)

Exemption provided in respect of free food and non-alcoholic beverage provided by employer **through paid voucher** shall not apply to an employee, being an assessee, who has exercised option under sub-section (5) of section 115BAC."

(4) Rule 2BB is amended (Section 10(14) – Salaries Head)

- a) An employee, being an assessee, who opts for the provisions of section 115BAC would be entitled for exemption **only in respect of travelling allowance, daily allowance and conveyance allowance.**
- b) An employee, being an assessee, who opts for the provisions of section 115BAC would be entitled for exemption **only in respect of transport allowance granted to an employee who is blind or deaf and dumb or orthopedically handicapped with disability of the lower extremities of the body to the extent of ₹ 3,200 p.m.**

[AMT is not applicable to Individual or HUF opting for Section 115BAC]

AGRICULTURAL INCOME

Section 10(1) provides that agricultural income from land situated in India is exempt.

CONCEPT OF TAXATION OF THE AGRICULTURE INCOME

Agriculture Income is totally exempt under the Act, but shall be included in the total income in case of certain assessee for the purpose of determining the rate of tax on the non-agriculture income known as **partial integration of taxes**. *It is applicable to Individuals, HUF, AOP, BOI and Artificial Judicial Persons.*

Two conditions which need to be satisfied for partial integration are:

Net Agricultural Income should **exceed ₹ 5,000 p.a.**

AND

Non-Agricultural Income should **exceed the maximum amount not chargeable to tax.**

Tax calculation in such cases is as follows:

- Step 1:** Add non-agricultural income with net agricultural income. Compute tax on the aggregate amount.
- Step 2:** Add net agricultural income and the maximum exemption limit available to the assessee (i.e. ₹ 2,50,000 / ₹ 3,00,000 / ₹ 500,000). Compute tax on the aggregate amount.
- Step 3:** Deduct the amount of income tax calculated in step 2 from the income tax calculated in step 1 i.e. Step 1 – Step 2.
- Step 4:** The sum so arrived at shall be increased by health & education cess @4% **after taking Rebate u/s 87A** if applicable.

[Note: In case TOTAL INCOME excluding LTCG/STCG(111A)/Casual Income does not exceed the maximum exemption limit, partial integration of tax will not be applicable.]

DEFINITION OF AGRICULTURAL INCOME [Section 2(1A)]

Agricultural income may arise in any one of the following three ways:-

- (1) It may be Rent or Revenue derived from **land situated in India** and used for agricultural purposes.
- (2) It may be income derived from such land
 - a. through agriculture or
 - b. through the performance of a process ordinarily employed by a cultivator or receiver of rent in kind to render the produce fit to be taken to the market or
 - c. through the sale of such agricultural produce in the market.
- (3) It may be derived from any farm building required for agricultural operations

The income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income, whether or not the basic operations were carried out on land.

INCOME FROM COMPOSITE ACTIVITY OF AGRICULTURE AND BUSINESS

Nature of Income	Amount of Agricultural Income	Non-agricultural Income i.e. business income
1. Income from sale of TEA Grown and Manufactured by the assessee in India	60%	40%
2. Income from RUBBER plants Grown by the seller in India	65%	35%
3. Income derived from the sale of COFFEE Grown and Cured by the seller in India	75%	25%
4. Income derived from the sale of COFFEE Grown, Cured, Roasted and Grounded by the seller in India	60%	40%

Rule 7 - Agricultural produce other than Tea, rubber etc used as Raw Material in a Manufacturing Concern

FMV of any agricultural produce shall be deducted in computing PGBP income & not the cost of cultivation.

[Must refer sugarcane example discussed in class]

RESIDENTIAL STATUS [Section 6]

RESIDENT STATUS OF AN INDIVIDUAL [Section 6(1)]

Clause 1 of Section 6 [It is not a sub-section (1)]

Under section 6(1), an individual is said to be **Resident in India** in any previous year, if he satisfies **any one** of the following **BASIC conditions**:

1. He has been in India during the previous year for a total period of **182 days or more**,

OR

2. He has been in India **during the 4 years immediately preceding the previous year** for a total period of **365 days or more** **AND** has been in India for **at least 60 days** in the relevant PY.

Exceptions: 3 Exceptions

The following categories of individuals will be treated as Residents **only if** the period of their stay during the relevant previous year amounts to 182 days or more.

1. **Indian Citizen** who leaves India **as a member of the crew of an Indian ship**,
2. **Indian Citizen** who leaves India **for the purpose of employment** outside India **OR**
3. **Indian Citizen or Person of Indian origin** engaged outside India **coming on a visit to India**.

AMENDMENT:

However, such person (Indian citizen or person of Indian origin) having total income (other than the income from foreign sources) exceeding ₹ 15 lakhs during the previous year will also be treated as resident in India if -

he has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 120 days in the previous year.

Note: "Income from foreign sources" means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India.

[Clause (b) of Explanation (1) to Section 6(1)]

Note: A person is said to be of Indian origin if he or either of his parents or either of his grandparents were born in undivided India.

Rules notified for Indian Citizen going on International voyage as a crew member

For the purposes of Section 6(1), in case of an individual, being a citizen of India and a member of the crew of a ship, the period or periods of stay in India shall, in respect of an eligible voyage, **not include the period beginning on the date entered into the Continuous Discharge Certificate** in respect of joining the ship by the said individual and **ending on the date entered into the Continuous Discharge Certificate in respect of signing off** by that individual from the ship.

"Eligible voyage" shall mean a voyage undertaken by a ship engaged in the carriage of passengers or freight in international traffic where

- i. For the voyage having originated from any port in India, has as its destination any port outside India; **and**
- ii. For the voyage having originated from any port outside India, has as its destination any port in India.'

Deemed resident in India [Section 6(1A)] – Clause 1A of Section 6

An **individual, being an Indian citizen**, having **total income, other than the income from foreign sources, exceeding ₹ 15 lakhs** during the previous year would be deemed to be **Resident in India** in that previous year, **if he is not liable to pay tax in any other country or territory** by reason of his domicile or residence or any other criteria of similar nature.

This provision would not apply in case of an individual who is said to be resident in India in the previous year under section 6(1).

Note: "income from foreign sources" means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India.

Meaning of "liable to tax" [Section 2(29A)] – Liable to tax, in relation to a person and with reference to a country, means that there is an income-tax liability on such person under the law of that country for the time being in force. It also includes a person who has subsequently been exempted from such liability under the law of that country. [Inserted by Finance Act 2021, effective from AY 2021-22]

ADDITIONAL CONDITION [Section 6(6)]: Resident but Not-Ordinarily Resident

A Not-Ordinarily Resident person is one who satisfies any one of the conditions specified under section 6(6) which are:

1. (a) If such individual has been **Non-Resident** in India in **any 9 out of the 10 previous years** immediately preceding the relevant previous year,

OR

- (b) If such individual has during the **7 previous years** immediately preceding the relevant previous year been in India for a period of **729 days or less.**

In other words, an Individual has to satisfy the both additional conditions in order to become Ordinarily Resident (ROR) in India:-

- (a) Resident in India in **any 2 out of the last 10 previous years** immediately preceding the relevant previous year

AND

- (b) Total stay in India for **730 days or more** during **7 previous years** immediately preceding the relevant previous year.

OR

2. a citizen of India, or a person of Indian origin, having total income, other than the income from foreign sources, exceeding fifteen lakh rupees during the previous year, as referred to in clause (b) of Explanation 1 to clause (1), who has been in India for a period or periods amounting in all to 120 days or more but less than 182 days

OR

3. a citizen of India who is deemed to be resident in India under clause (1A).

Resident but not ordinarily resident [Final Points] [Section 6(1) read with Section 6(6)]

A not-ordinarily resident person is one who satisfies any one of the conditions specified u/s 6(6):

- (i) *If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year,*
- (ii) *If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days or less,*
- (iii) *If such individual is*
 - *an Indian citizen or person of Indian origin*
 - *who, being outside India, comes on a visit to India in any previous year*
 - *having total income, other than the income from foreign sources exceeding ₹ 15 lakhs during the previous year,*
 - *who has been in India for 120 days or more but less than 182 days during that previous year AND for 365 days (or more) during 4 years immediately preceding the relevant previous year.*
- (iv) *If such individual is an Indian citizen who is deemed to be resident in India under section 6(1A) [It may be noted that a Deemed Resident will always be a resident but not ordinarily resident].*

RESIDENT STATUS OF HINDU UNDIVIDED FAMILY (HUF) [Section 6(2)]

A HUF would be **Resident in India** if the control and management of its affairs is situated **wholly or partly** in India. If the control and management of the affairs is situated **wholly outside India** it would become a non-resident.

	<u>STATUS</u>
If Control & Management of its affairs is wholly / party situated in India	- Resident
If Control & Management of its affairs is wholly situated outside India	- Non-Resident

Resident and Ordinarily Resident (HUF)

If the HUF is Resident, then the status of the Karta determines whether it is ROR or RNOR. For this purpose, additional conditions of Section 6(6) are relevant.

If Karta of resident HUF satisfies both the following additional conditions (as applicable in case of individual) then, resident HUF will be Resident and ordinarily resident, otherwise it will be Resident but not ordinarily resident.

1. *Karta of resident HUF should be resident in at least 2 previous years out of 10 previous years immediately preceding relevant previous year.*

and

2. *Stay of Karta during 7 previous years immediately preceding relevant previous year should be 730 days or more.*

RESIDENT STATUS OF A COMPANY [Section 6(3)]

IF PERSON IS:

STATUS

An **Indian Company** [as defined under section 2(26)]

-

Resident

Company other than Indian Company will be Resident in India in any previous year if its Place of Effective Management [POEM], in that year, is in India.

*“POEM” to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, **in substance** made.*

RESIDENT STATUS OF PERSONS OTHER THAN ABOVE [Section 6(2) & (4)]

(FIRMS/AOP/BOI/Local Authority/Artificial Judicial Persons)

STATUS

If Control & Management of its affairs is wholly / party situated in India

-

Resident

If Control & Management of its affairs is wholly situated outside India.

-

Non-Resident

SCOPE OF TOTAL INCOME [Section 5] – Tax Incidence vs Residential Status

NATURE OF INCOME	R & OR	RNOR	NR
a) Income received or deemed to be received in India during the year	Taxable	Taxable	Taxable
b) Income accrues/arises or deemed to accrue/ arise in India during year	Taxable	Taxable	Taxable
(c) <u>Income accrues/arises and received outside India and derived from</u>			
- A business / Profession controlled/ setup in India	Taxable	Taxable	Not Taxable
- A business / Profession controlled/ setup from outside India	Taxable	Not Taxable	Not Taxable
Or Income from other heads			
(d) Past income (earned and received abroad) remitted to India in Previous year	Not Taxable	Not Taxable	Not Taxable

INCOME DEEMED TO ACCURE OR ARISE IN INDIA [Section 9]

Section 9 applies to all assesses irrespective of their residential status and place of business. The categories of income which are deemed to accrue or arise in India are as under:

Income Accruing/Arising [Section 9(1)(i)]

All income accruing or arising, whether directly or indirectly,

- ✓ through or from **any Business Connection (including professional connection) in India**, or
- ✓ through or from **any property, asset or source of Income**, or
- ✓ through **the transfer of a capital asset situated in India** i.e. if the source of income is in India.

shall be deemed to accrue or arise in India

Note:

Existence of Professional connection amounts to existence of business connection. (for example when foreign lawyer is called upon in India to plead the case in Indian courts.

Salaries Earned in India [Section 9(1)(ii)]

Taxable including Pension, Arrear Salary & Leave Salary for **work done in India**.

Salaries Payable by Indian Govt. [Section 9(1)(iii)]

Any income chargeable under head “salaries” payable by the Indian Govt. to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India.

Foreign Allowances by the Govt. Employer - Section 10(7) –Exempted

Any allowance or perquisite paid or allowed outside India, by the Indian Govt. to a citizen of India, for rendering service outside India is fully exempt.

INCOME FROM DIVIDEND [Section 9(1)(iv)]

☞ All dividends paid by an **Indian company** must be deemed to accrue or arise in India.

INTEREST [Section 9(1)(v)]

Under section 9(1)(v), an **interest** is deemed to accrue or arise in India [Taxable in the hands of recipient] if it is **payable by:**

- 1) the **Government**; or
- 2) a **person resident in India** **except** where it is payable
 - a) in respect of any money borrowed and used for the purposes of a business or profession carried on by him outside India **OR**
 - b) for the purposes of making or earning any income from any source outside India) ; or
- 3) a **Non-Resident** when it is payable in respect of any debt incurred or moneys borrowed **and used for the purpose of a business or profession carried on in India** by him.

IMP: Interest on money borrowed by the non-resident for any purpose other than a business or profession, will not be deemed to accrue or arise in India.

ROYALTY [Section 9(1)(vi)] – Royalty includes any payment for software

Royalty will be will be deemed to accrue or arise in India when it is payable by –

- 1) the **Government**; or
- 2) a **person who is a resident in India** **except** in cases where it is payable
 - a) for the transfer of any right or the use of any property or information or for the utilization of services for the purposes of a business or profession carried on by such person outside India **OR**
 - b) for the purposes of making or earning any income from any source outside India; or
- 3) a **non-resident** **only when the royalty is payable**
 - a) in respect of any right, property or information used or services utilised for purposes of a business or profession carried on in India **OR**
 - b) **for the purposes of making or earning any income from any source in India.**

FEES FOR TECHNICAL SERVICES [Section 9(1)(vii)]

Any fees for technical services will be deemed to accrue or arise in India if they are payable by:

- 1) **the Government; or**
- 2) **a person who is resident in India, except in cases where the fees are payable**
 - a) in respect of technical services utilised in a **business or profession carried on** by such person outside India **OR**
 - b) for the purpose of making or earning any **income from any source** outside India; or
- 3) **a person who is a non-resident, only where the fees are payable in respect of**
 - a) services utilised in a business or profession carried on by the non-resident in India **OR**
 - b) **where such services are utilised for the purpose of making or earning any income from any source in India.**

Explanation to Section 9

Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fee for technical services to be taxed irrespective of territorial nexus

*Explanation to section 9 clarifies that income by way of **interest, royalty or fee for technical services** which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of section 9(1), shall be included in the total income of the non-resident, whether or not:*

- (i) **the non-resident has a residence or place of business or business connection in India;** or
- (ii) **the non-resident has rendered services in India.**

GIFT [Section 9(1)(viii)]

Income **arising outside India**, being **any sum of money** referred to in sub-clause (xviii) of clause (24) of section 2, **paid by a person resident in India to a non-resident**, not being a company, or to a foreign company.

Note: Section 2(24)(xviii) – Income includes any sum of money or value of property referred to in clause (x) of sub-section (2) of section 56.

Explain the concept of "Apportionment of Profit" under section 9 of the Income-tax Act, 1961

Clause (a) of Explanation 1 to Section 9(1)(i) provides that, "in case of a business of which all the operations are not carried out in India, the income of the business deemed under this clause to accrue or arise in India shall be only such part of the Income as is reasonably attributable to the operations carried out in India."

It shall include income from

- (i) *advertisement targetting customers residing in India or accessing advt. thro IPA (Internet Protocol Address) located in India*
- (ii) *sale of data collected from persons residing in India or using IPA located in India*
- (iii) *sale of goods and services using data collected from persons residing in India or using IPA located in India*

Business Connection in India shall include

Explanation 2 to Clause (i) of Sub-section (1) of Section 9

Any business activity carried out through a person acting on behalf of the non-resident and such person

- a) exercises in India, an **authority to conclude contracts or plays the principal role leading to conclusion of contracts** on behalf of the non-resident or
 - b) **maintains in India a stock of goods** from which he delivers goods on behalf of the non-resident or
 - c) **secures orders in India, mainly or wholly**
 - for the non-resident or
 - for that non-resident and other non-residents
 - under the same common control & managements
- ☞ Business Connection shall not include the cases where the non-resident carries on business **through a broker, general commission agent or any other agent of an independent status.**
- ☞ **Independent status:** Where a broker, general commission agent or any other agent not works mainly or wholly on behalf of a NR or other non-residents under the same common control & management.

Following cases shall not be treated as Business connection in India:

Explanation 1 to Clause (i) of Sub-section (1) of Section 9

- 1) **Purchase of goods in India for the purpose of export.**
- 2) **Engaged in the business of running a news agency or publishing newspapers, magazines or journals, through or from activities which are confined to the collection of news and views in India for transmission out of India.**
- 3) **Non-resident's operations is confined to shooting of cinematography films in India but if non-resident is**
 - (i) **An Individual** - He should not be citizen of India.
 - (ii) **A Firm**- No partner should be citizen of India or resident in India.
 - (iii) **A Company** - None of the shareholder should be citizen of India or resident in India.
- 4) In the case of a foreign company **engaged in the business of mining of diamonds**, no income shall be deemed to accrue or arise in India to it through or from the activities which **are confined to the display of uncut and unassorted diamond in any special zone notified** by the Central Government in the Official Gazette in this behalf.

Significant economic presence of a non-resident in India shall constitute "business connection" in India 

[Now Applicable for May & Nov 2022 Exam]

Significant economic presence of a Non-Resident in India shall constitute "business connection" in India and

"significant economic presence" for this purpose, shall mean-

- a) transaction in respect of any goods, services or property **carried out by a non-resident in India including provision of download of data or software in India**, if the aggregate of payments arising from such transaction or transactions during the previous year **exceeds ₹ 2 Crores**; or
- b) **systematic and continuous soliciting of business activities** or engaging in interaction **with users in India through digital means where number of users should be atleast 300,000**

Provided that the transactions or activities shall constitute significant economic presence in India, whether or not,—

- i. the agreement for such transactions or activities is entered in India; or
- ii. the non-resident has a residence or place of business in India; or
- iii. the non-resident renders services in India:

Provided further that only so much of income as is attributable to the transactions or activities referred to in clause (a) or clause (b) **shall be deemed to accrue or arise in India.**

SURAJ AGRAWAL TAX CLASS

CA INTERMEDIATE - MAY & NOV 22 EXAM

Assessment Year 2022-23

By: CA SURAJ AGRAWAL - SATC

SALARIES

Income from Salary			XXX
Add: Income by way of Allowances			XXX
Add: Taxable Value of Perquisites			XXX
Gross Salary			XXX
Less: <u>Deduction under section 16</u>			
(i) Statutory Deduction	50,000		
(ii) Entertainment Allowances	XXX		
(iii) Professional Tax	XXX		XXX
INCOME UNDER THE HEAD "SALARIES"			XXX

NOTE: Deduction under Section 16 (all 3) would not be available in case of an employee, being an assessee, who opts for the provisions of section 115BAC

SECTION 15 - BASIS OF CHARGE

Salary chargeable to tax either on 'due' basis or on 'receipt' basis whichever is earlier. Accounting method of the employee is not relevant. However, in case of Advance Salary/Arrear Salary which is taxable on receipt basis, the assessee is **eligible to claim relief** under section 89.

SALARY IN THE GRADE SYSTEM: 7,000 - 500 - 10,000 - 800 - 15,600 - 1,000 - 22,600
Salary for every 12 months will remain same and then it will increase by 500 upto 10,000 after that by 800 etc

TAX TREATMENT OF DIFFERENT FORM OF 'SALARY'

A. Advance Salary:

Salary *can't be taxed twice* i.e. where any salary paid in advance is taxed on receipt basis (in the yr. of receipt) it can't be taxed again on the due basis (in the yr. in which it becomes due).

B. Arrear of Salary:

Arrear of Salary received by an assessee is charged to tax on receipt basis (if it was not taxed earlier on due basis).

C. Salary in Lieu of notice period: Salary in lieu of notice period is generally taxable u/s 15 on receipt basis.

D. Salary to Partners:

Any salary, bonus, commission or remuneration received by a partner from his firm is taxed as **business income** and not as salary income.

E. Bonus: Bonus is taxed in the year of receipt, it is not taxed on due basis.

F. Salary from UNO {Sec. 2 of UN (Privileges & Immunities Act, 1947)}: Exempt

G. Full-time or part-time employment: Taxable u/h Salary

H. Foregoing of Salary: Taxable

I. Surrender of Salary: Not Taxable

J. TDS on Salary: TDS deducted paid by employer will be added to salary.

K. Salary Paid Tax-Free: Tax paid by employer will be added to salary.

L. Loan or Advance Against Salary - Not taxable

SECTION 17(3) – “PROFITS IN LIEU OF SALARY”

- (a) Any Terminal Compensation
- (b) Payment from an Unrecognized Provident Fund
- (c) Payment under Keyman Insurance Policy
- (d) any amount, whether in lumpsum or otherwise, due to the assessee or received by him, from any person before joining employment with that person, or after cessation of his employment with that person.

PLACE OF ACCRUAL OF SALARY

- ✓ **Section 9(1)(ii)** provides that **salary earned in India** is deemed to accrue or arise in India even if it is paid outside India or it is paid or payable after the contract of employment in India comes to an end.

[Pension paid abroad] in respect of services rendered in India & **leave salary paid abroad** in respect of leave earned in India is deemed to accrue or arise in India]

- ✓ **Section 9(1)(iii)** provides that salaries payable **by the Government to a citizen of India for services outside India** shall be deemed to accrue or arise in India.
- ✓ **Foreign Allowances by the Govt. Employer - Section 10(7) – Exempted**
Any allowance or perquisite **paid or allowed outside India**, by the Indian Govt. to a citizen of India, for rendering service outside India is fully exempt.

ENTERTAINMENT ALLOWANCE [SEC.16 (ii)]

- A. First the entire entertainment allowance received by an employee is added to the gross salary.
- B. Then deduction u/s 16(ii) **[only to Govt employee]** shall be allowed as under:

Least of the following is deductible-

- a. Amount actual received
- b. ₹ 5,000
- c. 20% of salary (Salary=Basic Salary)

Here, Government Employee includes Central/State but excludes employees of local authorities, statutory corporations, PSU.

PROFESSIONAL TAX

Professional tax or taxes on employment levied by a State is allowed as deduction only **when it is actually paid** by the employee **during the previous year**.

If professional tax is reimbursed or directly paid by the employer on behalf of the employee, the amount so paid is **first included as salary income and then allowed as a deduction under section 16**.

GRATUITY [Section 10(10)]	Exempt	Taxable
(a) Government Employee	Fully exempt	NIL
(b) Employee covered by Gratuity Act: Least of: (i) Actual Gratuity received; (ii) $15/26 \times \text{Last Drawn Salary} \times \text{Number of years of Completed Service or part thereof in excess of six months;}$ (Salary = Basic + D.A.) (iii) Statutory Limit: ₹ 20,00,000;	Least is exempt	Actual amt. received Less Amount exempt
(c) Other employees: Least of the following: (i) Actual Gratuity received; (ii) $1/2 \times \text{Average salary for 10 months preceding the month of retirement} \times \text{Number of fully completed years of service}$ (iii) Statutory Limit: ₹ 20,00,000; Salary = Basic + DA (if forming part of Retirement benefits) + Commission on Turnover.	Least is exempt	Actual amt. received Less Amount exempt

PENSION	Exempt	Taxable
UNCOMMUTED PENSION	NIL	Fully taxable
COMMUTATION OF PENSION [Section 10(10A)]		
a. Government Employee	Fully exempt	NIL
b. Other Employee • If in receipt of Gratuity • If not in receipt of Gratuity	$1/3 \times \text{Full Value of Pension}$ is Exempt $1/2 \times \text{Full Value of Pension}$ is Exempt	Actual amt. received Less Amount exempt

LEAVE ENCASHMENT	Exempt	Taxable
LEAVE ENCASHMENT DURING SERVICE	NIL	Fully taxable
LEAVE ENCASHMENT ON RETIREMENT [Sec. 10(10AA)]		
(a) Government Employees	Fully exempt	NIL
(b) Other employees: Least of the following: i. Amount Actually Received ii. ₹ 3,00,000 iii. Average Salary of 10 Months preceding the date of trf x 10 Months iv. Leave credit (Maximum @ 30 days p.a.) for every completed year of service x Average salary on 10 months basis Salary = Basic + DA (if forming part of Retirement benefits) + Commission on Turnover.	Least is Exempt	Actual amount received Less Amount Exempt

RETRENCHMENT COMPENSATION [Sec 10(10B)]	Exempt	Taxable
Least of the following: 1. Amount actually received 2. ₹ 5,00,000 3. Amount determined u/s 25F(b) of Industrial Disputes Act, 1947 $[15/26 \times 3 \text{ months average Salary} \times \text{Number of years of Completed Service or part thereof in excess of six months;}$ (Salary = Basic + D.A. + etc)]	Least is exempt	Actual amount received Less Amount exempt

VOLUNTARY RETIREMENT COMPENSATION (if relief u/s 89(1) is not claimed) [Section 10(10C)] & Rule 2BA [Only once in any Assessment Year – Once in a Life]	Exempt	Taxable
Least of the following is exempt (a) Amount actually received (b) ₹ 5,00,000 (c) Last drawn Salary x 3 x No. of fully completed years of service or (d) Last drawn Salary x Balance of months of service left Salary = Basic + DA (if forming part of Retirement benefits) + Commission on Turnover.	Least is exempt	Actual amount received Less Amount Exempt C

LEAVE TRAVEL ASSISTANCE [Sec 10(5) - Rule 2B]		
Twice in a block of four years: [Current Block (10th) is 2022-2025] (a) By Air - National Airways - Economy Class - Shortest route (b) By Train -1 Class AC fare - Shortest Route (c) By Recognized Transport – Deluxe / First Class - Shortest Route (d) By other means - 1 Class AC fare as per Railways, equivalent for distance travelled - Shortest Route ➤ If LTA is not availed twice in a block of 4 yrs, One LTA can be availed in the 1 st year of next block ➤ This exemption is not available for more than two surviving children of an individual and born after 1.10.1998 . (Multiple Birth after one child – ok) ➤ Family: Self + Spouse + Child + Dependents (Parents, brothers, Sisters)	Amount is exempt only for the Shortest Route	Actual amount received Less Amount Exempt

[Exemption u/s 10(5) would not be available in case of an employee, being an assessee, who opts for the provisions of section 115BAC]

HOUSE RENT ALLOWANCE [Sec 10(13A)]
Least of the following is exempt: A. Actual HRA Received B. 50% (metros) / 40% (others) of Salary C. Rent paid Less 10% of salary Salary = Basic + DA (Forming Part of Retirement Benefits) + Commission on Turnover
If there is a change in Rent, Salary, Place, HRA etc, than HRA exemption will be on periodic basis.

[Exemption u/s 10(13A) would not be available in case of an employee, being an assessee, who opts for the provisions of section 115BAC]

ALLOWANCES which is Partly Exempted to the extent specified [Section 10(14)]	
A. Children Education allowance (for Maximum 2 Children)	₹ 100 p.m. per child
B. Children Hostel Expenditure allowance (for Max 2 Children)	₹ 300 p.m. per child
C. Running Allowance/Outstation Allowances for Transport Sector Employees	Lower of 70% of amount received or ₹ 10,000 p.m.
D. Transport Allowance (for going to office and back)	NIL
(i) General	₹ 3,200 p.m.
(ii) For handicapped, Blind etc	₹ 800 p.m.
E. Mining / Underground Allowance	₹ 800 p.m.
F. Tribal Area Allowance	₹ 200 p.m.
G. Hill compensatory allowance	₹ 300 p.m.

Note:

An employee, being an assessee, who opts for the provisions of section 115BAC would be entitled for exemption only in respect of transport allowance granted to an employee who is blind or deaf and dumb or orthopedically handicapped with disability of the lower extremities of the body to the extent of ₹ 3,200 p.m.

ALLOWANCES which is Exempted to the extent incurred for official purpose [Section 10(14)]		
A. Travelling Allowance	B. Conveyance Allowance	C. Daily Allowance
D. Academic Allowance	E. Helper Allowance	F. Uniform Allowance

Note: An employee, being an assessee, who opts for the provisions of section 115BAC would be entitled for exemption only in respect of travelling allowance, daily allowance and conveyance allowance mentioned in (a) to (c) above.

ALLOWANCES – Fully Taxable		
A. City Compensatory Allowances	B. Entertainment Allowance	C. Dearness Allowance
D. Medical Allowance	E. Lunch Allowance	F. Overtime Allowance

ALLOWANCES – Fully Exempt
A. Allowances & Perquisites to Indian Citizen working outside India by GOI
B. Allowances & Perquisites to UNO Employee

Exempted Perquisites

Following perquisites are exempted in hands of employee:

- Tea or snacks:** Tea, similar non-alcoholic beverages and snacks provided during working hours.
- Food:** Food provided by employer in working place upto ₹ 50 per meal. Remote area – full exempt.
- Recreational facilities:** Recreational facilities extended to a group of employees.
- Goods sold to employee at concessional rate:** Goods manufactured by employer and sold by him to his employees at concessional (not free) rates.
- Conveyance facility:** Conveyance facility provided -
 - to employees for journey between office and residence and vice versa.
 - to the judges of High Court and Supreme Court
- Training.** Amount spent on training of employees including boarding and lodging expenses of the employees on such training.
- Services rendered outside India:** Any perquisite/allowances allowed outside India by the Government to a citizen of India for rendering services outside India.
- Contribution in some specified schemes**
 - Employer's contribution to staff group insurance scheme.
 - Payment of annual premium by employer on personal accident policy affected by him in respect of his employee.
- Loans**
 - Loan given at nil or at concessional rate of interest by the employer provided the aggregate amount of loan does not exceed ₹ 20000.
 - Interest free loan for medical treatment of the diseases specified in Rule 3A.
- Medical facility**
 - A provision of medical facility at office is exempt.
 - ~~In any other case, medical facility up to ₹ 15000 is exempt.~~
- Periodicals and journals:** Periodicals and journals required for discharge of work.
- Telephone, mobile phones:** Expenses for telephone, mobile phones actually incurred on behalf of employee by the employer whether by way of direct payment or reimbursement.
- Free education facility:** Free education facility to the children of employee in an institution owned or maintained by the employer provided cost of such facility does not exceed ₹ 1000 per month per child.
- Computer or Laptop:** Computer or Laptop provided whether to use at office or at home (provided ownership is not transferred to the employee).
- Movable assets:** Sale or gift of any movable asset (covered under SLM method) to employee after being used by the employer for 10 or more years.
- Leave Travel Concession:** Leave Travel Concession (LTC) to the extent of lowest cost incurred.
- Rent-free accommodation**
 - Rent-free official residence provided to a Judge of a High Court or the Supreme Court.
 - Rent-free furnished residence (including maintenance thereof) to Official of Parliament, a Union Minister or a Leader of opposition in Parliament.
- Accommodation:** Accommodation provided -
 - on transfer of an employee in a hotel for a period not exceeding 15 days in aggregate.
 - in a remote area to an employee working at a mining site or an onshore exploration site or a project execution site or a dam site or a power generation site or an offshore site.
- Tax on non-monetary perquisite** paid by employer on behalf of employee.
- Health club. Sports club** facility

TAXABILITY IN RELATION TO RETIREMENT FUNDS



1. Taxability of Employer's Contribution:

- | | |
|------------------------------|-------------------------------------------------------------------------------------------------------------|
| a. Statutory Provident Fund | - Fully Exempt without any limit |
| b. PPF | - Employer does not contribute in PPF |
| c. Recognised Provident Fund | - Exempt to the extent of 12% of Salary [Basic +DA(R) + Com(R)]
[Limit of ₹750,000 is applicable] |
| d. UnRecognised PF | - No Tax Treatment at the time of contribution. |

2. Taxability of Interest received in above Funds:

- | | |
|------------------------------|----------------------------------------------------------|
| a. Statutory Provident Fund | - Exempt u/s 10(11) [Refer Note Below] |
| b. PPF | - Exempt u/s 10(11) |
| c. Recognised Provident Fund | - Exempt to the extent of 9.5% [Refer Note Below] |
| d. UnRecognised PF | - No Tax Treatment at the time of interest credit. |

3. Taxability of amount received from Funds:

- | | |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| a. Statutory Provident Fund | - Exempt u/s 10(11) |
| b. PPF | - Exempt u/s 10(11) |
| c. Recognised Provident Fund | - Exempt u/s 10(12) [5 Years works] |
| d. UnRecognised PF | - Employer's Contribution & Interest – Taxable u/h Salary
- Interest on employee's contribution – Taxable u/h IOS |

NOTE:

Exemption under section 10(11) or 10(12) would *not be available* in respect of *income by way of interest accrued* during the previous year to the extent it relates to the amount or the aggregate of amounts of contribution made by that person/employee exceeding ₹ 2,50,000 in any previous year in that fund, on or after 1st April, 2021.

If the contribution by such person/employee is in a fund in which there is no employer's contribution, then, a higher limit of ₹ 5,00,000 would be applicable for such contribution, and interest accrued in any previous year in that fund, on or after 1st April, 2021 would be exempt upto that limit.

Perquisite includes:

A. The amount or aggregate of amounts of any contribution made

- *in a recognised provident fund*
- *in NPS referred to in section 80CCD(1)*
- *in an approved superannuation fund*

by the employer to the account of the assessee, to the extent it exceeds ₹ 7,50,000.

[Section 17(2)(vii)]

- ##### **B. Any annual accretion by way of interest, dividend or any other amount of similar nature during the previous year to the balance at the credit of the recognized provident fund or NPS or approved superannuation fund to the extent it relates to the employer's contribution which is included in total income in any previous year under section 17(2)(vii) computed in prescribed manner [Section 17(2)(vii)].**

The CBDT has, vide **Rule 3B**, notified the following manner to compute the annual accretion by way of interest, dividend or any other amount of similar nature during the previous year-

$$TP = (PC/2)*R + (PC1 + TP1)*R$$

Where,

TP	Taxable perquisite under section 17(2)(viiia) for the current previous year
PC	Amount or aggregate of amounts of employer's contribution in excess of ₹ 7.5 lakh to recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund during the previous year
PC1	Amount or aggregate of amounts of employer's contribution in excess of ₹ 7.5 lakh to recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund for the previous year or years commencing on or after 1st April, 2020 other than the current previous year
TP1	Aggregate of taxable perquisite under section 17(2)(viiia) for the previous year or years commencing on or after 1st April, 2020 other than the current previous year
R	I/ Favg
I	Amount or aggregate of amounts of income accrued during the current previous year in recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund
Favg	(Amount or aggregate of amounts of balance to the credit of recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund on 1st April, 2021 + Amount or aggregate of amounts of balance to the credit of recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund on 31st March, 2022) / 2

Note: Where the amount or aggregate of amounts of TP1 and PC1 exceeds the amount or aggregate of amounts of balance to the credit of the specified fund or scheme **on 1st April, 2021 (for PY 2021-22)**, then, the amount in excess of the amount or aggregate of amounts of the said balance **shall be ignored** for the purpose of computing the amount or aggregate of amounts of TP1 and PC1.

**Question**

Mr. Sunil is the CEO of Sheetal Textiles Ltd. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2020, 31.3.2021 and 31.3.2022 is ₹ 50,35,000, ₹ 71,46,700 and ₹ 94,57,700, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. Sunil u/s 17(2)(vii) and 17(2)(viii) for the A.Y. 2021-22 and A.Y. 2022-23.

Solution:**Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viii) for A.Y. 2021-22**

- Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2020-21 – ₹ 7,50,000 = ₹ 27,600
- Perquisite value taxable u/s 17(2)(viii) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.0914 + 0$
 $= ₹ 1,261$

PC Sheetal Textile Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2020-21 = ₹ 27,600

PC1 Nil

TP1 Nil

R $I/F_{avg} = 5,56,500/60,90,850 = 0.0914$

I RPF balance as on 31.3.2021 – employee's and employer's contribution during the year – RPF balance as on 1.4.2020 = ₹ 5,56,500 (₹ 71,46,700 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 50,35,000)

Favg Balance to the credit of recognized provident fund as on 1st April, 2020 + Balance to the credit of recognized provident fund as on 31st March, 2021)/2 = (₹ 50,35,000 + ₹ 71,46,700)/2 = ₹ 60,90,850

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viii) for A.Y. 2022-23

- Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2021-22 – ₹ 7,50,000 = ₹ 27,600
- Perquisite value taxable u/s 17(2)(viii) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.0910 + (27,600 + 1,261) \times 0.0910$
 $= ₹ 1,256 + ₹ 2,626$
 $= ₹ 3,882$

PC Sheetal Textile Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2021-22 = ₹ 27,600

PC1 Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2020-21 = ₹ 27,600

TP1 Taxable perquisite under section 17(2)(viii) for the P.Y. 2020-21 = ₹ 1,261

R $I/F_{avg} = 7,55,800/83,02,200 = 0.0910$

I RPF balance as on 31.3.2022 – employee's and employer's contribution during the year – RPF balance as on 1.4.2021 = ₹ 7,55,800 (₹ 94,57,700 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 71,46,700)

Favg Balance to the credit of recognized provident fund as on 1st April, 2021 + Balance to the credit of recognized provident fund as on 31st March, 2022)/2 = (₹ 71,46,700 + ₹ 94,57,700)/2 = ₹ 83,02,200

Note – Since the employee's contribution to RPF exceeds ₹ 2,50,000 in the P.Y.2021-22, interest on ₹ 5,27,600 (i.e., ₹ 7,77,600 – ₹ 2,50,000) will also be chargeable to tax.

ACCOMMODATION PROVIDED BY THE EMPLOYER TO THE EMPLOYEE**1. Value of Unfurnished Accommodation**

Nature of Perquisite	Taxable Value of Perquisite
Provided by Government	License fee determined by the Government Less: Rent recovered from Employee
Provided by Employer other than Central and State Government	
(a) Owned by Employer	If population > 25 Lakhs: 15% of Salary If population > 10 Lakhs but does not exceeds 25 Lakhs: 10% of Salary If population ≤ 10 Lakhs: 7.5% of Salary Less Rent actually paid by the employee
(b) Taken on lease by the employer	Lower of the Two: (a) Rent paid by employer or (b) 15% of Salary Less Rent recovered from employee
(c) Accommodation in hotel	24% of Salary paid / payable or actual charges paid / payable whichever is lower Less Amount paid or payable by the employee

Hotel Accommodation: Accommodation provided in a hotel will not be a taxable perquisite if—

- The period of such accommodation does not exceed 15 days;
- Such accommodation has been provided on the transfer of the employee from one place to another.

2. Valuation of Furnished Accommodation:

	Particulars	₹
	Value of unfurnished accommodation as above	XXX
Add:	Value of Furniture	
	- If owned by employer, then 10% per annum of Original Cost of such Furniture	XXX
	- If hired from third party, then Actual Hire Charges	XXX
Less:	Any charges paid or payable by the employee	(xxx)
	Value of furnished accommodation	XXX

Note: Furniture includes Television sets, Radio, Refrigerator, other Household Appliance, Air-Conditioning plant or Equipment.

VALUATION NOT APPLICABLE

(a) **Employees Covered:** Employees working at —

- Mining Site;
- Onshore Oil Exploration Site;
- Offshore Site;
- Project Execution Site;
- Dam Site;
- Power Generation Site

(b) **Conditions:**

- The accommodation should be of a **temporary nature** and
- Accommodation should be located at least 8 kms away from local limits of Municipality / Cantonment or located in a remote area (i.e. 40 kms away from town with **Less** than 20,000 population)

VALUATION OF ACCOMMODATION IN CASE OF EMPLOYEES ON TRANSFER

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

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

MEANING OF SALARY FOR VALUATION OF ACCOMMODATION FACILITIES

Salary (from one or more employer) <i>includes</i>	Salary <i>excludes</i>
<ul style="list-style-type: none"> • Basic Salary • D.A., if considered for retirement benefits • All taxable allowances • Bonus or Commission • Any other monetary payment 	<ul style="list-style-type: none"> • Employer's contribution to PF • Exempted Allowances • Value of perquisites (monetary or non-monetary) • Arrear Salary / Advance Salary

TAXABLE PERQUISITES PROVIDED BY AN EMPLOYER TO AN EMPLOYEE OR MEMBERS OF HIS HOUSEHOLD**(A) Taxability of Motor Car Benefits [Rule 3(2)(A)] - Taxable only in the hands of specified employee**

[Specified employee means – Director, 20% (beneficial ownership), Cash salary (Excluding non-monetary perquisites) more than ₹ 50,000 p.a.]

Owner of Car	Expenses met by	Purpose	Taxable Value of Perquisite
1(a) Employer	Employer	Fully Official	Not a perquisite provided the documents specified in Rule 3(2)(B) are maintained.
1(b) Employer	Employer	Fully personal use	Aggregate of- (a) Actual expenditure on car (b) Remuneration to chauffeur (c) 10% of the cost of car (normal wear & tear) Less: Amount charged from employee
1(c)(i) Employer	Employer	Partly for official and partly for personal	Upto 1.6 Litres [Small Car] ₹ 1,800 p.m. + ₹ 900 p.m. for chauffeur Above 1.6 Litres ₹ 2,400 p.m. + ₹ 900 p.m. for chauffeur
1(c)(ii) Employer	Employee	Partly for official and partly for personal	Upto 1.6 Litres [Small Car] ₹ 600 p.m. + ₹ 900 p.m. for chauffeur Above 1.6 Litres ₹ 900 p.m. + ₹ 900 p.m. for chauffeur
2(i) Employee	Employer	Fully official use	Not a perquisite provided documents as per Rule 3(2)(B) are maintained.
2(ii) Employee	Employer	Partly for official use and partly for personal use	Subject to Rule 3(2)(B) Actual expenditure incurred Less Small Car - Value as per 1(c)(i) Big Car - Value as per 1(c)(i)
3(i) Employee owns other auto-motive but not car	Employer	Fully official use	Not a perquisite provided documents as per Rule 3(2)(B) are maintained
3(ii) Employee owns other auto-motive but not car	Employer	Partly for official and partly for personal use	Subject to Rule 3(2)(B) Actual expenditure incurred by employer Less: 900 p.m.

Notes:**1. Using cars from pool of cars owned or hired by Employer:**

The employee is permitted to use any or all cars for both official and personal use:

For one car - Valued as per 1(c)(i)

For more than one car - Valued as per 1(b) as if fully used for personal purpose

Perquisites taxable in case of Specified Employee only (if it is provided by employer):

Rule	Nature of perquisite	Taxable Value of perquisite (TVP)
3(3)	Service of sweeper, gardener or watchman or personal attendant	Actual cost to the employer Less: Amount paid by the employee
3(4)	Supply of gas, electricity or water for household consumption	Procured from outside Agency: Amount paid to outside agency Resources owned by employer himself: Manufacturing cost per unit Less: Amount paid by the employee
3(5)	Education facilities to members of his household: (a) Free Education to children in the school maintained by the employer or the school sponsored by the employer [No limit] (b) Other Schools	If the cost of education per child does not exceed ₹ 1,000 p.m. - Not taxable [2 Views] In other case, Cost to such education Less: Amount recovered from employee
3(6)	Transportation of goods or passengers at free or concessional rate provided by the employer engaged in that business (other than railways / airlines)	Value at which it is offered to public Less: Amount recovered from the employee

VALUATION OF OTHER PERQUISITES:

3(7)(i)	Interest Free of Concessional Loan: SBI Rate = SBI Rate prevailing on the First Day of the Previous Year	<ul style="list-style-type: none"> Interest charged by employer is equal to or higher than SBI rates: It is not a taxable perquisite Interest charged is lower than SBI rates: Perquisites will be: Interest at SBI rates on <u>maximum monthly outstanding balance on last day</u> Less: Interest paid by the employee on that loan. Exceptions: <ol style="list-style-type: none"> Medical loan for treatment of diseases specified in Rule 3A except Loan reimbursed by medical insurance Loan not exceeding ₹ 20,000 in aggregate
3(7)(ii)	Travelling, touring, accommodation and other expenses met by the employer other than official purpose. (To be calculated only for the period of vacation)	Amount incurred by employer or Value offered to public Less: Amount recovered from employee
3(7)(iii)	Free meals during office hours [Free meal in remote area or offshore installation area is not a taxable perquisite] (exemption through coupon would not be available in case of an employee, being an assessee, who opts for the provisions of section 115BAC)	A. Actual cost to the employer above ₹ 50/- per day per meal Less: Amount recovered from the employee B. Tea or non-alcoholic beverages / snacks during working hours is not taxable.
3(7)(iv)	Value of any gift or voucher or token including cash gift	A. Value of gift (in Kind) in excess of ₹ 5,000. [2 Views] B. Gift in cash – Fully taxable.

Deferment of perquisite tax on ESOPs

Section 156 of the IT Act, as amended, provides for deferment of perquisite tax liability

Where the income of the assessee of any assessment year, beginning on or after the 1st day of April, 2021,

- ✓ includes income of the nature specified in clause (vi) of sub-section (2) of section 17 and
- ✓ such specified security or sweat equity shares referred to in the said clause are allotted or transferred directly or indirectly by the current employer, being an eligible start-up referred to in section 80-IAC,

the tax or interest on such income included in the notice of demand referred to in sub-section (1) shall be payable by the assessee within 14 days-

- i. after the expiry of forty-eight months from the end of the relevant assessment year; or
- ii. from the date of the sale of such specified security or sweat equity share by the assessee; or
- iii. from the date of the assessee ceasing to be the employee of the employer who allotted or transferred him such specified security or sweat equity share,

whichever is the earliest.

SECTION 10(10CC) – INCOME IN THE NATURE OF PERQUISITE –Exempted

As per section 10(10CC), tax paid by employer on non-monetary perquisite income of employee shall be exempt in the hands of employee. Further it will behave like TDS and eligible for deduction from final tax liability.

TAX IMPLICATION IN HANDS OF EMPLOYER: Section 40(a)(v) disallows such expenditure in the hands of the employer. Therefore, the tax so paid by the employer will not be deductible expenditure in his hands.

Medical Facilities - Exempt**MEDICAL TREATMENT IN INDIA:**

- I. Expenditure incurred in a **HOSPITAL MAINTAINED BY THE EMPLOYER.**
- II. **Sum paid by the employer for any expenditure for medical treatment** in any hospital maintained by the Govt. or local authority or an approved hospital under CGHS or of prescribed diseases/ ailment in a hospital approved by CCIT. [Certificate is required]
- III. Group Medical Insurance, Medical Insurance paid u/s 80D, Premium of Accidental Insurance Policy.
- IV. Any other medical expenditure reimbursed to the extent of ₹15,000

Medical Treatment Abroad:

Medical treatment and Stay expenses (one attendant) abroad – exempt (If permitted by R.B.I.)

Travel expenditure (patient + one attendant)

– GTI upto ₹ 2,00,000 – Fully exempt.

– GTI above ₹ 2,00,000 (fully taxable)

Family = Spouse + Children + Dependent [Parents + Brothers + Sister]

RELIEF UNDER SECTION 89**VRS vs Relief****COMPUTATION OF RELIEF IF SALARY RECEIVED IN ARREARS OR IN ADVANCE**

Steps	Procedure
1	Compute the tax payable (after cess) on the total income, <u>including</u> the <i>additional salary</i> , of the relevant previous year in which the same is received .
2	Compute the tax payable (after cess) on the total income, <u>excluding</u> the additional salary, of the relevant previous year in which the same is received .
3	Find out the difference between the tax at (1) and (2).
4	Compute the tax (after cess) on the total income after <u>including</u> the additional salary in the previous year to which such salary relates .
5	Compute the tax (after cess) on the total income after <u>excluding</u> the additional salary in the previous year to which such salary relates.
6	Find out the difference between tax at (4) and (5).
7	<ul style="list-style-type: none"> ➤ <u>If tax computed in step (3) > tax computed in step (6) then the excess amount is admissible as relief u/s 89.</u> ➤ <u>If tax computed in step (3) ≤ tax computed in step (6) then NO RELIEF is admissible u/s 89.</u> In such a case, the assessee employee need not apply for relief.

MEANING OF GOVERNMENT EMPLOYEES FOR DIFFERENT PURPOSE

S. No.	Purpose	Government employees
1.	GRATUITY [SECTION 10(10)]	CG/SG/LA
2.	PENSION [SECTION 10(10A)]	CG/SG/LA/SC
3.	LEAVE SALARY [SECTION 10(10AA)]	CG/SG
4.	RENT FREE ACCOMODATION [SECTION 17(2)(i) & 17(2)(ii)]	CG/SG
5.	ENTERTAINMENT ALLOWANCE [SECTION 16(ii)]	CG/SG

MEANING OF SALARY FOR COMPUTATION

SECTION	Purpose of computation	Salary includes
16(ii)	Entertainment allowance	Basic salary
10(10)	Gratuity [if gratuity Act, 1972 is applicable]	Basic salary + DA
10(10)	Gratuity [if Act not applicable]	Basic salary + DA (R) + % Commission on Sales.
10(10AA)	Leave Salary	Basic salary + DA (R) + % Commission on Sales.
10(10B)	Retrenchment Compensation	Basic salary + DA
10(13A)	HRA	Basic salary + DA (R) + % Commission on Sales.
10(10C)	VRS	Basic salary + DA (R) + % Commission on Sales.
10(12)	RPF	Basic salary + DA (R) + % Commission on Sales.
17(2)(i) & 17(2)(ii)	RENT FREE ACC [RFA] OR ACCOMMODATION AT CONFESIONAL RATE	Basic + Allowance + Bonus + Commission + DA(R) + Any money payment (which in chargeable to tax) But does not include – 1. Employer's contribution to RPF 2. Value of perquisite specified in Sec 17(2) [from one or more employer]
17(2)(iii)	SPECIFIED EMPLOYEE	Basic Salary + D.A. + Commission, whether payable monthly or turnover based + Bonus + Fees + <u>Advance Salary + Arrear Salary</u> + Any other taxable payment + Any taxable allowances + Any other monetary benefits – Deductions under section 16 [from one or more employer]

DEARNESS ALLOWANCES & DEARNESS PAYS**DEARNESS ALLOWANCE (DA)**

If in question DA is given, then it will not be treated as forming part of salary unless question specifically says that –

- If forming part of retirement benefit
- Under the terms of employment
- Consider for retirement benefit

DEARNESS PAYS (DP)

It means it is forming part of retirement benefit **unless question says otherwise.**

MEMBERS OF HOUSEHOLD

= Spouse, Children, Spouse of children, Parents, Servants & all other Dependents.

FAMILY

= Spouse + Children + **Dependent** [Parents + Brothers + Sisters]

CA SURAJ AGRAWAL

INCOME FROM HOUSE PROPERTY

Deduction under Section 24(b) {in respect of one or two self-occupied properties only} would not be available in case of an Individual, being an assessee, who opts for the provisions of Section 115BAC. Further, Loss u/h HP is also not available for Setoff or Carry forward in Section 115BAC.

HOW TO COMPUTE INCOME FROM HOUSE PROPERTY:

Gross Annual Value [GAV]		XXX
Less: Municipal Taxes <u>PAID</u> by owner during the P.Y.		<u>XXX</u>
Net Annual Value (Sec 23) [NAV]		XXX
Less: <u>Deductions u/s 24</u>		
(a) Statutory deduction @ 30% of NAV	XXX	
(b) Interest on Loan [Accrual Basis]	XXX	
Income from House Property		<u>XXX</u>
Add: (a) Recovery of Unrealised Rent (Less 30%)	[Section 25A]	XXX
(b) Arrear Rent Received (Less 30%)	[Section 25A]	<u>XXX</u>
Income Under the head House Property		XXX

Important Facts:

1. The **annual value** of *property* shall be taxable under the head "Income from House Property" subject to fulfillment of the following conditions:
 - a. Property should consist of any building or land appurtenant thereto.
 - b. Assessee must be the owner [Including Deemed owner] of the property
 - c. Property must not be used by the assessee for his own business/profession
2. **House property situated in a foreign country - As per Residential Status**
 - ROR- Taxable as per H.P. Head
 - RNOR / NR - Taxable as per H.P. Head **but rent must be received in India.**
3. **Disputed ownership: - The income shall be taxable in the hand of recipient.**
4. **Annual value of the following properties are chargeable under the head "Profits and gains of business or profession" –**
 - a) **Portions of property occupied by the assessee for the purpose of any business or profession carried on by him**
 - b) **Properties of an assessee engaged in the business of letting out of properties.**
5. **Property held as a stock in trade: Taxable in H.P. Head.**
 [Letting out incidental to Business is taxable under the head PGBP]
6. Annual value of house property will be charged under the head "Income from house property", where it is held by the assessee as stock-in-trade of a business also.

However, the annual value of property being held as stock in trade would be treated as NIL for a period of **two year** from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority, if such property is not let-out during such period. [Section 23(5)]

7. **Where the property is let out with the object of carrying on the business of the assessee in an efficient manner, then the rental income is taxable as business income. Related expenses are also deductible in computing such business Income.**

8. **Composite Rent**

➤ **If it is separable:**

Rent against Property will be taxable in HP Head and Rent towards other Facilities (services/Assets) will be taxable in Other Sources Head.

➤ **If it is not separable:**

All the receipt will be taxable either in PGBP or in IOS as the case may be.

Synopsis of Sections

Section	Description	Important Provisions
22	Chargeability of Income from Property (Ownership, Property, Not be Business Use)	Annual value chargeable to tax
23(1) (a)/(b)/(c)	Annual Value – Manner of Determination	FR } MV } ALV or Expected Rent SR } AR less UR
23(1) Proviso	Deduction for Municipal tax including water/sewerage tax [Land revenue, Ground Rent - Not covered]	Paid by Owner during current previous year allowed as deduction
23(1) Expln,	Treatment of unrealised rent	Reduced from actual rent [in case Rule 4 is satisfied]
23(2)	Self occupied property or Unoccupied property (Max. 2 house)	Annual Value - NIL (Not let out for part of the year & no benefit derived)
23(4)	More than TWO house property self occupied	TWO house treated self-occupied. All other house deemed let out at the option of the assessee
24	Deductions from income from house property	(a) 30% of NAV and (b) Interest on borrowed capital
24 Exptn.	Treatment of Pre-construction period interest	Allowed in 5 equal instalments from the PY in which acquisition was made or construction completed.
25	Interest paid outside India	Disallowed if paid without deduction of TDS and no person treated as agent u/s 163

25A	Recovery of Unrealized Rent	Treated as the income of the previous year in which it is realized and allow deduction 30%
25A	Treatment of receipt of arrears of rent	Treated as the income of the previous year in which it is received and allow deduction 30% of arrears.
26	Property owned by co-owners	If their shares are defined, it is assessable in their hands independently to the extent of their share
27	Deemed ownership	<p>Person treated as owner even though no document of title is registered in his name and includes:</p> <ol style="list-style-type: none"> 1. Transfer to spouse (except agreement to live apart) and Transfer to a minor child (except minor married daughter) without adequate consideration. 2. Holder of Impartible estate 3. Member of Co-operative Society, Company which has allotted house property 4. Part-performance of a contract u/s 53A of the Transfer of Property Act (Holder of a Power of Attorney) 5. Ownership of property is under dispute 6. Lessee of a property taken on a lease for a period of not Less than 12 years [Other than month to month or renewal of not more than 12 month] 7. Property constructed on a Leasehold Land.
Section 10	<u>Property Exempt from Tax</u>	<ol style="list-style-type: none"> (a) One Palace of Ex-ruler, (b) Farm House, (c) TWO self occupied property, (d) Property used for business or profession, (e) Property used for Charitable Purposes, (f) House Property of a Local Authority or approved scientific research association or universities/educational institutions or any registered trade union or any political party.

COMPUTATION OF INCOME UNDER THE HEAD HOUSE PROPERTY

Particulars	Let-out for full year	Let-out property kept vacant for whole year	Let-out property kept vacant for part of the year	Self-Occupied or un-occupied u/s 23(2)	Property self-occupied for part of the year and let out for part of the year (Time-wise)	More than TWO Property Self-Occupied	Portion of Property let Out and Portion self Occupied (Area-wise)
	(1)	(2)	(2A)	(3)	(4)	(5)	(6)
Gross Annual Value	Higher of ALV [FR,MV,SR] or AR less UR	NIL	Check conditions of Section 23(1)(c)	NIL	ALV for whole year will be compared with AR of let-out period u/s 23(1)(a)/(b)	TWO Property like Column 3 (at the option of the Assessee)	u/s 23(1)(a)(b) (in proportion to the portion occupied)
Less: Municipal Tax Paid	Paid basis	Paid basis	Paid basis	NIL	Paid basis for whole year		Paid basis but (Proportionate)
Net Annual Value	NAV	(NAV)	NAV	NIL	NAV		NAV
Less: Dedn. u/s 24						Other Properties like Column 1	
U/s 24(a): Deduction @ 30%	30% x NAV	NIL	30%xNAV	NIL	30% x NAV		30%xNAV
U/s 24(b): Interest + 1/5 th PCPI	No Limit	No Limit	No Limit	30,000/- <u>[2,00,000 in specific conditions]</u>	Interest for whole year (No Ceiling Limit)		No Limit

DETERMINATION OF ANNUAL VALUE IN DIFFERENT SITUATION

(1) Where the property is let out throughout the previous year

GAV would be **the higher of:**

(a) Annual Letting Value (ALV) **OR EXPECTED RENT OR**

(b) Actual rent **received or receivable** [Less Unrealised Rent] during the year

ALV (or Expected Rent) means Municipal Valuation or Fair Rent (Market Rent), whichever is more, subject to maximum of Standard Rent.

(i) Municipal Valuation

(ii) Fair Rent

(iii) Std. Rent

(iv) Actual Rent [Less Unrealised Rent]

Higher

Lower (ALV)

Higher will be GAV.

[Unrealised Rent – Conditions of Rule 4: (i) Tenancy Bonafide (ii) Tenant has vacant or Steps have been taken (iii) Tenant is not in occupation of any other property (iv) Assessee has taken all reasonable steps for the recovery of unpaid rent.]

(2) Where Let Out Property is vacant for part of the year [Section 23(1)(c)]

Where let out property is vacant for part of the year **and owing to vacancy**, the actual rent is lower than the ALV, then the **actual rent received or receivable will be the GAV** of the property.

Step 1: Find ALV/Expected Rent (Reasonable Expected Rent) for 12 months

Step 2: Find out AR received or Receivable for 12 months after excluding UR only (not vacancy loss) – assuming there is no vacancy

Step 3: Find out AR received or Receivable after excluding UR & loss due to Vacancy (Actual Rent received)

Situation A: If ALV is higher than Rent amount computed as per STEP 2, then ALV is GAV

Situation B: If Rent computed as per STEP 2 is higher than ALV but Rent computed as per STEP 3 is lower than ALV, then GAV is rent as computed in STEP 3

Situation C: If Rent computed in STEP 3 is higher than ALV, then rent so computed will be GAV.

(3) In case of TWO Self-Occupied Property or Unoccupied Property

GAV – NIL, M. Tax Deduction – NIL, Net Annual Value – NIL

Deduction u/s 24 (b): Interest on capital borrowed – ₹ 30,000 (Maximum limit) [Aggregate for 2 House]

Maximum Limit will be ₹ 2,00,000 [Aggregate for 2 House] – if –

a) Loan on or after 1.4.99

b) for Acquisition/Construction

c) Construction Completed within 5 years from the end of the financial year in which the loan is taken,

d) Certificate

- Note:**
1. There is no upper limit on Interest u/s 24(b) if the property is Let out or DLO
 2. Limit will be applicable after adding Current Year Interest with 1/5th of the Pre-construction interest.

(4) In case of Deemed to be Let Out Property [Section 23(4)]

Where the assessee owns more than **TWO** property for self-occupation, then the income from any TWO such property, **at the option of the assessee**, shall be computed under the self occupied property category and its annual value will be NIL. **The other self occupied/unoccupied properties shall be treated as "deemed let out properties"**.

(5) Where a house property is Let-out for Part of the year and Self-occupied for part of the year [Time Wise Division]

- (a) If a single unit of a property is self-occupied for part of the year and let-out for the remaining part of the year, then the **ALV for the whole year shall be taken** into account for determining the GAV.
- (b) The **ALV for the whole year** shall be **compared with the actual rent for the let out period** and whichever is higher shall be adopted as the GAV.

(6) Where a portion let out and a portion self-occupied [AREA WISE DIVISION]

- (a) Income from any portion or part of a property which is let out shall be computed separately under the "let out property" category **AND** the other portion or part which is self occupied shall be computed under the "self-occupied property" category.
- (b) **There is no need to treat the whole property as a single unit for computation of income from house property.**

Deduction u/s 24(b) – Interest on borrowed capital – ACCRUAL BASIS

- (a) loans borrowed **for the acquisition, construction, repairs, renewal or reconstruction**
- (b) Interest relating to the year of completion of construction **can be fully claimed** in that year **irrespective of the date of completion.**
- (c) Interest on unpaid interest is not deductible.
- (d) **Pre Construction Period Interest:** Interest payable on borrowed capital **for the period prior to the previous year** in which the property has been acquired or constructed, can be claimed as deduction.

Pre-acquisition/pre-construction period = Period Starting from the date of borrowing and ending on the,

- (i) 31st March immediately prior to the date of completion of construction or acquisition of property, **or,**
- (ii) Date of repayment of **whole** loan, whichever is earlier.

Period of Deduction: 1/5th of the interest of pre-acquisition or pre-construction period, for 5 consecutive years starting from the previous year in which the property is acquired or constructed.

Deduction of 5 installment will be available even if the loan outstanding is repaid before 5 year period

TREATMENT OF INCOME FROM CO-OWNED PROPERTY [SECTION 26]

1. Where property is owned by two or more persons, whose shares are definite and ascertainable, then the income from such property cannot be taxed as income of an AOP.
2. Where the **house property owned by co-owners is self occupied** by each of the co-owners, the annual value of the property of each co-owner will be NIL and **each co-owner shall be entitled to a deduction of ₹ 30,000 or ₹ 2,00,000, as the case may be.**
3. Where the **house property owned by co-owners is let out**, the income from such property shall be computed as if the property is owned by one owner and thereafter the income so computed shall be apportioned amongst each co-owner as per their specific share.

House Property - CASE STUDY

No Notional Income for House Property Held as Stock in Trade

Following sub-section (5) shall be inserted in Section 23 by the Finance Act, 2017 w.e.f AY 18-19:

Where the property consisting of any building or land appurtenant thereto is held as stock-in-trade and the property or any part of the property is not let during the whole or any part of the previous year, the annual value of such property or part of the property, for the period up to TWO year from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority, shall be taken to be NIL

[The Delhi High Court in case of CIT v. Ansal Housing & Construction Ltd. held that the assessee engaged in business of construction and sale of flats is liable to pay tax on notional rent in respect of unsold flats, owned by the assessee at the end of the relevant financial year if these flats are not let for the whole of the previous year. Above amendment is introduced to provide relief to builders]

Assessee engaged in the Business of Letting out House Properties

“The income earned by an assessee engaged in the business of letting out of properties on rent would be taxable as business income”

Recently, the Supreme Court in case of “Rayala Corporation Pvt. Ltd. v. ACIT” held that Income from Letting out of Property on rent by an assessee engaged in the business of letting is assessable as “Business Profits” u/s 28 and not as “Income from House Property” u/s 22 and there is no concept of notional rent under the head “Profits and Gains of Business of profession”

Also, the Supreme Court in case of “Chennai Properties & Investment Ltd. v. CIT” held that where the assessee company is incorporated with main objective, as stated in the MOA to acquire the properties in the city & let out those properties and the assessee had rented out such properties, rental income from such properties is a business income & cannot be taxed as Income from House Property u/s 22.

(Earlier, we used to treat above income as Income from House Property)

CBDT Circular: Lease Rent from letting out buildings/developed space along with other amenities in Industrial Park/SEZ

In case of an undertaking which develops, develops and operates or maintains and operates a notified Industrial Park/SEZ, the income from letting out of premises/developed space along with other amenities/facilities in such park/SEZ **is to be charged to tax under the head ‘PGBP’.**

CLASS NOTES

PROFITS & GAINS OF BUSINESS OR PROFESSION

SUMMARY OF IMPORTANT PROVISIONS: AY 2022-23

Section	Description	Important Provisions
28	<p>Income under the head profits and Gains of Business or Profession</p> <p>a. Income from any business/profession b. Salary & Interest received by Partner c. Payment under Keymen Insurance policy d. Gifts/Benefits relating to Business e. Duty Drawback, Sale of import license, cash assistance etc f. Compensation for not pursuing any business or Professional activity g. Income of trade or professional association h. Compensation for termination of any agency agreement etc i. Termination or the modification of the terms and conditions, of any contract relating to his business j. Fair Market Value of inventory as on the date on which it is converted into, or treated as, a capital asset k. Sum received on account of any capital Asset destroyed where whole cost was allowed as deduction u/s 35AD.</p> <p>Not a business income: (a) Rent from HP kept as a stock in Trade [HP] (b) Dividend from securities kept as Stock-in-trade [IOS]</p>	
41(1)	Recovery of loss or expenditure already allowed or remission of liability	Treated as income of the year of recovery or write off by the assessee. [Creditors Forgone]
41(2)	Profit on Sale of assets of Power sector unit claimed depreciation under SLM	Treated as balancing charge and taxable as business income in the year in which the amount is due. [Sale Price Less Opening WDV to extent of depreciation claimed]
41(3)	Transfer of capital asset used for scientific research and claimed u/s 35	Treated as business income in the year of transfer
41(4)	Recovery of bad debt allowed u/s 36(1)(vii)	Treated as income in the year of receipt
41(5)	Set off of losses related to year of discontinuance of business	First set off against income u/s 41(1), 41(3), 41(4), 41(4A) – NO Time Limit of 8 Years
43(5)	Definition of Speculative transactions	Transactions involving transfer of commodities securities etc, which are settled without actual delivery. <u>Derivative transaction is not speculative.</u>
44AA& Rule 6F	<p>Maintenance of Accounts by certain persons carrying on business or profession</p> <p><u>Specified Books of Accounts for notified professionals:</u></p> <p>a) a Cash Book; b) a journal, if mercantile basis is being followed. c) a ledger; d) Carbon copies of bills and receipts issued where sums exceeds ₹ 25; e) Original bills for expenditure exceeding ₹ 50.</p>	<p>Mandatory Maintenance of Books:</p> <p>Notified Professionals: Gross receipts exceeds ₹ 1,50,000 in each of three prior previous years.</p> <p>Others:</p> <p>1. Gross receipts exceeds ₹ 10,00,000 or Income exceeds ₹ 1,20,000 in any one of three prior previous year. (For Ind / HUF- ₹ 25,00,000 / ₹ 2,50,000)</p> <p>2. Declaring Lower income than as prescribed in u/s 44AE/44BB/44BBB</p>

	<p>f) In case of a <u>person carrying on medical profession</u>, he will be required to maintain the following in addition to the list given above:</p> <p>I. a daily cash register in Form 3C.</p> <p>II. Inventory records of drugs, medicines and other consumable accessories used for his profession.</p>	<p>3. Where the provisions of Section 44AD(4) are applicable & Income exceeds the maximum amount which is not chargeable to income-tax in any PY</p> <p>4. <u>Profession covered u/s 44ADA</u>: If he claims that his income is lower than the profits and gains computed on a presumptive basis <u>and his income exceeds the basic exemption limit</u></p>
<p>44AB and Rule 66</p>	<p>Audit of accounts of certain persons carrying on business or profession.</p> <p>Due date of filing the Tax Audit Report:</p> <p>Where the assessee has under taken any international transaction as per Section 92B or specified domestic transaction as per section 92BA: 31st October of the relevant AY (ROI Due date is 30th November)</p> <p>In any other case: 30th September of the relevant AY (ROI Due date is 31st October)</p>	<p>a) <u>Business</u>: if the total sales, turnover or gross receipts in business <u>exceeds ₹ 1 Crore</u> in any previous year; or</p> <p>However, in case of person carrying on such business whose</p> <p>i. aggregate cash receipts (including receipt through cheque/draft which is not account payee) in the relevant PY < 5% of total receipts (incl. receipts for sales, turnover, gross receipts); and</p> <p>ii. aggregate cash payments (including payment through cheque/draft which is not account payee) in the relevant PY < 5% of total payments (incl. amount incurred for expenditure)</p> <p>If his total sales, turnover or gross receipts in business exceeds ₹ 10 crore in the relevant PY</p> <p>b) <u>Profession</u>: if the gross receipts in profession <u>exceeds ₹ 50 lakh</u> in any previous year; or</p> <p>c) <u>Business covered u/s 44AE/44BB/44BBB</u>: if the assessee claims that his income is lower than the profits and gains computed on a presumptive basis.</p> <p>d) <u>Business covered u/s 44AD</u>: Where the provisions of Section 44AD(4) are applicable & Income exceeds the maximum amount which is not chargeable to income-tax in any PY</p> <p>e) <u>Profession covered u/s 44ADA</u>: If he claims that his income is lower than the profits and gains computed on a presumptive basis <u>and his income exceeds the basic exemption limit</u></p>
<p>44AD</p>	<p>a) Any business except the business of Section 44AE; & whose turnover/gross receipts <u>does not exceed ₹ 2 Crore</u>.</p> <p>b) <u>Eligible Assessee</u>: <u>Resident</u> Individual/HUF/Firm, but not LLP</p>	<p>a) Income is <u>8% of turnover</u> or any other higher sum declared by the assessee (6% in case of banking transactions)</p> <p>b) Where an eligible assessee declares profit for any PY as per this section and he declares profit for any of the 5 consecutive AYs relevant to the PY succeeding such PY not as per Section 44AD, he shall <u>not be eligible</u> to</p>



	<p>c) Partner's Interest & Salary is now not deductible</p> <p>d) No Deduction against Depreciation, Unabsorbed Depreciation, Any Business expenses</p> <p>e) Other Business Loss, Other Head's loss, Chapter VIA Deduction is permitted.</p>	<p>claim the benefit of the provisions of this section <u>for 5 AYs</u> subsequent to the AY relevant to the PY in which the profit has not been declared as per the Sec 44AD [Sec 44AD(4)]</p> <p>c) <u>The provisions of Section 44AD is not applicable in following cases:</u></p> <p>a. A person carrying on <i>specified profession</i> as referred to in Section 44AA;</p> <p>b. A person earning <i>income in the nature of commission or brokerage</i>; or</p> <p>c. A person carrying on any <i>Agency Business</i>.</p>
44ADA	<p><i>Resident Assessee being an Individual or a Partnership Firm (but not LLP) engaged in Notified Profession as per Section 44AA &</i></p> <p>Total Gross receipts does not exceed ₹ 50 Lakhs</p>	<p>Income is <u>50% of gross receipts or higher sum.</u></p>
44AE	<p>Business of Plying, hiring or leasing of Good carriage where the Assessee is <u>owning not more than 10 trucks</u> at any time during the previous year.</p>	<p><u>In case of HEAVY GOODS VEHICLE (Gross Vehicle Weight exceeds 12000 kilograms)</u></p> <p>₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, for every month or part of a month during which the heavy goods vehicle is owned by the assessee in the previous year</p> <p><u>OTHER THAN HEAVY GOODS VEHICLE:</u></p> <p>₹ 7,500 for every month or part of a month</p>

COMPUTATION OF INCOME UNDER THE HEAD

Section	P & L Item	Conditions / Restrictions
	Net Profit as per Profit and Loss Account	
Less:	Allowable Expenditure and not debited to Profit & Loss A/c	
30	Rent, rates, taxes, repairs and insurance for building <ul style="list-style-type: none"> - Business Use - Taxes are deductible subject to Sec 43B 	Current repairs of capital nature not allowed as a deduction
31	Repairs & insurance for machinery, plant & furniture	Current repairs of capital nature not allowed as a deduction
32	Depreciation	
	<p>a. It is Mandatory, Business Use – Active or Passive, Ownership (Hire Purchase)</p> <p>b. Assets must be either Tangible Assets (Building, Plant & Machinery, Furniture) or Intangible Assets.</p> <p>c. Newly acquired asset during current previous year put into use for Less than 180 days entitled for depreciation at 50% of normal rate.</p> <p>d. Depreciation is applicable on WDV of each block where same % is applicable.</p> <p>e. Power Sector Unit can opt for SLM method [under SLM – no Block Concept]</p>	

	<p>Different Situation in case of Sale (when WDV Method is being followed): Section 50</p> <p>a. STCL – In case block ceased (all assets sold) and sale value is lesser than Op WDV + cost of new purchase.</p> <p>b. STCG – In case Sales value exceeds Op WDV + cost of new purchase (whether block ceased or not)</p> <p>Different Situation in case of Sale (when SLM Method is being followed):</p> <p>a. Terminal Depreciation: In case asset is sold at less than its open WDV</p> <p>b. Balancing Charges: In case asset is sold above its open WDV – To the extent of depreciation earlier allowed. Sale value above the Actual Cost will be taxable as CG.</p> <p>c. If the asset is sold in same year – than situation of STCL or STCG will arise.</p>
<p>32(1)(iia)</p>	<p>➤ Additional Depreciation for new Plant and Machinery acquired</p> <p>➤ by Manufacturer / Producer of any article or thing or</p> <p>➤ by Power Generating/Distribution/<u>Transmission</u> Units (WDV Method)</p> <p>➤ AD - Additional Depreciation at 20% of cost of current year purchases. If used for Less than 180 days, 10% of the cost shall be allowed <u>(balance 10% in Next PY)</u></p> <p>➤ Not available if the new asset is sold in same year.</p> <p>➤ Additional depreciation is not available to Ind. & HUF in case they opts for Sec. 115BAC.</p>
	<p>Such additional depreciation will not be available in respect of:</p> <p>(a) any old plant or machinery</p> <p>(b) any machinery installed in office premises, residential accommodation etc</p> <p>(c) office appliances or road transport vehicles</p> <p>(d) any machinery where 100% deduction or Depreciation is allowed.</p> <p>(e) Ships and Aircrafts.</p>
<p>32(2)</p>	<p>Unabsorbed depreciation - Can be set off against any income [Except Salary & Casual Income] and can be carry forward for any number of years.</p> <p><u>Order of Set-off:</u></p> <p>a) Current year depreciation / Current year capital expenditure on scientific research and current year expenditure on family planning, to the extent allowed.</p> <p>b) Inter Source & Inter Head Adjustments [Section 70 & Section 71]</p> <p>c) Brought forward loss from business/profession [Section 72(1)]</p> <p>d) Unabsorbed depreciation [Section 32(2)]</p> <p>e) Unabsorbed capital expenditure on scientific research or family planning</p>
<p>43(1)</p>	<p>Actual Cost of the Asset (Cash payment upto ₹ 10,000)</p> <p>Add: Interest on loan, Expenses incurred before put to use, trail expenses etc.</p> <p>Less: Any subsidy met by any third person</p> <p>Adjustments:</p> <ol style="list-style-type: none"> 1. Cost of Assets originally acquired for research and now transferred to business use – NIL 2. <u>Cost of Building previously used for non-business purpose – Notional depreciation is to be reduced at current depreciation rate.</u> 3. Cost of Assets where deduction is allowed u/s 35AD – NIL <p><i>Where an assessee incurs any expenditure for acquisition of any asset in respect which a payment (or aggregate of payments made to a person in a day), otherwise than by an account payee cheque/draft/use of electronic clearing system through a bank account or through such other prescribed electronic mode, exceeds ₹ 10,000, such payment shall be ignored for the purposes of determination of “Actual Cost” of such asset.</i></p> <p><i>The prescribed electronic modes are credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay [CBDT Notification No. 8/2020 dated 29.01.2020].</i></p>

35	Expenditure on Scientific Research [In house]	100% of Revenue expenditure or Capital expenditure incurred and prior period expenditure of three years fully allowed as deduction in the year of commencement of business
35	Contribution to any scientific research association for scientific research	100% of contribution allowed as deduction. (Nil in case Section 115BAC is opted)
35	Contribution to an Indian Company for Scientific research or Contribution for Social or Statistical research	100% of contribution allowed as deduction. (Nil in case Section 115BAC is opted)
35(2AA)	Weighted deduction for contribution to National Laboratory, IIT etc.	100% of such contribution is fully allowed as deduction. (Nil in case Section 115BAC is opted)
35(2AB)	Weighted deduction on in-house research by a company engaged in business of bio-technology or of manufacture or production of any article or thing not being any article specified in the list of the Eleventh Schedule	100% of revenue or capital expenditure incurred [current year] except land and building. [Building 100% allowed, Prior Period Expenditure 100% Allowed]
35AD (if opted)	Expenditure for Specified Business <ol style="list-style-type: none"> 1. Cold Chain Facility 2. Warehouse Facility for Agriculture Produce 3. Lying Cross country gas pipelines 4. Hotel – 2 star and above 5. Hospital – 100 Bed above 6. Housing projects under slum redevelopment 7. Housing project under affordable house scheme project 8. Production of fertilizer 9. Inland Container Depot / Container Freight Station 10. Bee-Keeping / Production of Honey 11. Warehouse Facility for Sugar 12. Lying/Operating a Slurry Pipeline for transportation of IRON Ore. 13. Semiconductor Wafer Fabrication Manufacturing Unit 14. <i>Developing or Operating & Maintaining or Developing, Operating & Maintaining any Infrastructure facility (Road, Rail, Highway, Water Supply, Port, Airport etc)</i> 	<ol style="list-style-type: none"> a. 100% of capital expenditure incurred except on land, Goodwill or financial instrument. b. Cash Payment upto ₹ 10,000 c. Prior Period Expenditure: 100% is allowable if capitalized in the books in the year of commencement. d. 20% old Machine permitted. Imported old machines is considered as new. e. Loss from eligible specified business can be set-off with only specified business whether eligible u/s 35AD or not. f. Lock in Period of Assets – 8 Years from the PY of deduction <p>Deduction under Section 35AD is not available to Ind. & HUF in case they opts for Sec. 115BAC.</p>
35CCD	Where <u>a company</u> incurs any expenditure (not being expenditure in the nature of cost of any land or building) on any notified skill development project	100% of Such expenses (except Land & Building) are allowed as Deduction.
35D	Amortisation of Preliminary Expenses incurred for setting up or extension undertaking or business unit (only to Indian Company or other Resident Assessee) <ol style="list-style-type: none"> a. Project/Feasibility Report Cost b. Market survey cost c. Engineering services d. Legal charges e. MOA/AOA drafting charges f. Fees for Registration of company g. Public issue expenses [work by approved concern]	<ul style="list-style-type: none"> • Company Assessee: Maximum: 5% of the [Cost of the project or Capital employed, whichever is higher]. • Non-Corporate Assessee Maximum: 5% of Cost of project • Time Period: Above amount shall be distributed in 5 equal installments.

35DD	Amortisation of expenses incurred for amalgamation / demerger	Allowed in 5 equal installments
35DDA	Amortisation of expenditure incurred under VRS	Allowed in 5 equal installments
36	Insurance premium of stocks	Fully Allowed.
36	Insurance on health of employees	Should be paid by any mode other than cash.
36	Bonus or Commission to employees	Paid before due date of filing return u/s 43B.
36(1)(iii)	Interest on borrowed capital	Paid before due date of filing return u/s 43B.
36(1)(iiia)	Discount on Zero Coupon Bonds issued by companies and scheduled banks	Written off over the period of the Bond.
36(1)(iv)	Employer's Cont. to a RPF / ASF	Paid before due date of filing return u/s 43B.
36(1)(iva)	Contribution towards Pension Scheme u/s 80CCD	Lower of the two is allowable: (i) Contribution made by employer (ii) 10% of the aggregate Salary. Salary = Basic Salary + DA (forming part)
36(1)(v)	Employer's contribution to an approved gratuity fund	Paid before due date of filing return u/s 43B.
36(1)(va)	Sums received from employees towards certain welfare schemes if credited to their accounts before the due date	Paid before the prescribed due date under the respective act.
36(1)(vi)	Allowance in respect of dead or permanently useless animals	Cost of animal Less insurance claimed or any other receipt
36(1)(vii)	Bad debts	Allowable subject to write-off in the books of accounts
36(1)(ix)	Expenditure on promoting family planning amongst the employees	Allowable only for Companies. Revenue expenditure is fully allowed. Capital expenditure in five equal installments.
36(1)(xiii)	Banking Cash Transaction Tax paid	Allowed as a deduction
36(1)	Securities Transaction Tax & Commodity Transaction Tax Paid	Fully allowed as deduction
37(1)	General deductions	Revenue expenses, related to business and not contrary to provision of law fully allowed.
Add:	Inadmissible Expenditures debited in Profit and Loss Account	
37(2B)	Advertisement in political parties souvenir	Fully disallowed [Deduction u/s 80GGB (Company) & 80GGC (Others) is available.]
38	Building, etc., partly used for business, etc., or not exclusively so used	Proportionate depreciation and expenses used for other purpose disallowed
40(a)(i)	Payment to NR (Except Salary)	Payment outside India or to Non-Resident without TDS - Not Allowed A. TDS must be deducted during the PY B. It must be remitted within the time limit u/s 139(1).

40(a)(ia)	Payment to Resident (Including Salary) [Imp – 194C, 194-I, 194J, 194H etc]	1. TDS must be deducted during the PY. 2. Payment made without TDS – 30% is disallowed 3. TDS deducted but not remitted within the time limit u/s 139(1) – 30% is disallowed 4. However, it is allowable on paid basis.						
40(a)(iii)	Salary paid outside India or to Non-Resident	Payment without TDS not allowed						
40(a)(iv)	Contribution to welfare fund of employees if no arrangements for TDS	Not allowed						
40(a)(v)	Tax on Perq. paid by employer [192(1A)]	Not allowed						
40(b)	<p><u>Disallowances in case of partnership firm – If not provided in Deed</u></p> <p><u>Book Profits: Net profit just before allowing any remuneration to partners [means taxable profit after all adjustments and any interest to partners]</u></p>	<p>Interest: Maximum 12%</p> <p>Remuneration: Allowed least of following or as specified in partnership deed or paid: [Only to Working Partners]</p> <table border="1" data-bbox="865 920 1469 1111"> <thead> <tr> <th data-bbox="865 920 1174 981">Book Profit</th> <th data-bbox="1174 920 1469 981">Maximum Remuneration</th> </tr> </thead> <tbody> <tr> <td data-bbox="865 981 1174 1077">Till 3 Lakhs</td> <td data-bbox="1174 981 1469 1077">Higher of ₹ 1,50,000 or 90% of book profit</td> </tr> <tr> <td data-bbox="865 1077 1174 1111">On balance</td> <td data-bbox="1174 1077 1469 1111">60% of Book profit</td> </tr> </tbody> </table>	Book Profit	Maximum Remuneration	Till 3 Lakhs	Higher of ₹ 1,50,000 or 90% of book profit	On balance	60% of Book profit
Book Profit	Maximum Remuneration							
Till 3 Lakhs	Higher of ₹ 1,50,000 or 90% of book profit							
On balance	60% of Book profit							
40(ba)	Disallowances in case of AOP/BOI	Any Interest, Remuneration - paid to member – Not all.						
40A(2)	Payments to Specified Person of any allowable expenditure [Relative, Substantial Interest Holder, Partner, Director, Members etc.]	Payment considered as excessive or unreasonable shall not be allowed.						
40A(3) & Rule 6DD	<p><i>Single or Aggregate Payments in respect of allowable expenditure in excess of ₹ 10,000 <u>other than by way of A/c payee cheque or A/c payee Demand Draft or use of electronic system through bank account or through such other prescribed electronic modes</u> to a single person on a single day.</i></p> <p><i>The prescribed electronic modes are credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay [CBDT Notification No. 8/2020 dated 29.01.2020].</i></p>	<p>Whole of the payment shall be disallowed.</p> <p><u>The limit is increased to ₹ 35,000 if Payment is made for plying, hiring or leasing goods carriages.</u></p> <p>Exceptions - Given in Rule 6DD.</p>						
40A(7)	Disallowance w.r.t. provision for Gratuity	Except provision/payment for recognized gratuity fund or actual liability incurred.						
40A(9)	Disallowance in respect of contribution to non-recognised funds	Payment not allowed except contribution u/s 36(1)(iv) / (iva) / (v)						

<p>43B</p>	<p>Following sums/expenses shall be paid before the due date of filing return otherwise in the year of provision it is not allowed:</p> <ul style="list-style-type: none"> a) Any sum payable by way of Tax, Duty, Cess or Fee b) Interest on any loan or advance from a scheduled bank or a cooperative bank c) Any sum payable by the assessee as interest on any loan or borrowing from financial institution any public financial institution or a State Financial Corporation or a State Industrial Investment Corporation. d) Any sum payable by the assessee as interest on any loan or borrowing from a deposit taking non-banking financial company or systemically important non-deposit taking non-banking financial company, in accordance with the terms and conditions of the agreement governing such loan or borrowing, e) Bonus or Commission payable to employees. f) Leave Salary payable to employees. g) Employer's Contribution to any Provident Fund or Superannuation Fund or Gratuity Fund or any other fund for the welfare of employees. h) Any sum payable to the Indian Railways for the use of railway assets
	<p>Expenses <u>not allowable</u> under the head "PGBP":</p> <ul style="list-style-type: none"> a. Penalty / Fine under any law b. Income tax / Wealth Tax / Deferred Tax c. Interest under Section 234A/234B/234C d. Payment of Advance Tax e. Dividend & Dividend Distribution Tax f. Interest on loan taken for payment of Income Tax, Advance Tax g. Any Provision/Reserve created in books h. Prior period expenses i. House hold expenses j. Interest on own capital, Salary to Owner k. Donation to political party l. CSR Expenditure
	<p>Expenses <u>Allowable</u> under the head PGBP":</p> <ul style="list-style-type: none"> a. Penalty under any contract (not under law) b. Custom Duty / GST / Security Transaction Tax / Banking Cash Transaction Tax / Commodity Transaction Tax / Professional Tax c. Interest on loan taken for payment of Dividend d. Brokerage paid for raising loan e. Paid a lump-sum amount to employee for not resigning the position
<p>43CA</p>	<p>In case of sale of Immovable Property, If Sale price is less than SDV, then SDV will be taken as Sale price. [SDV should exceeds 110% of sales price (In few cases – 20%)]</p>

TAXABILITY OF GIFT [Section 47, Section 49(1), Section 49(4), Section 50C & Section 56(2)(x)]

S.No.	Nature of Property	Transfer Price	SDV/FMV Less Tfr. Price	Treatment in hands of donor		Treatment in hands of donee			Indexation of COA
				Capital Gains taxability	Sale Consideration	Gift taxability	COA	POH	
1	Immovable property	Nil	≤ 50,000	-NA-	Not taxable	COA to previous owner	PoH of previous owner shall also be included	From the date first held by donee *	
2			> 50,000	-NA-	Taxable = SDV	SDV Sec 49(4)	PoH shall start from date of gift	From the date first held by donee	
3	Immovable property	Inadequate consideration	≤ 50,000 or upto 10% of sales consi.	SDV by virtue of section 50C	Not taxable	Purchase price, not SDV	PoH shall start from date of purchase	From the date first held by donee	
4			> Higher of 50,000 or 10% of Sales of Sales consideration	SDV by virtue of section 50C	Taxable = SDV - purchase price	SDV Sec 49(4)	PoH shall start from date of purchase	From the date first held by donee	
5	Movable specified property	Nil	≤ 50,000	-NA-	Not taxable	CoA to previous owner	PoH of previous owner shall also be included	From the date first held by donee *	
6			> 50,000	-NA-	Taxable = FMV	FMV Sec 49(4)	PoH shall start from date of gift	From the date first held by donee	
7	Movable specified property	Inadequate consideration	≤ 50,000	Sale price, no applicability of section 50C [FMV if Section 50CA is applicable]	Not taxable	Purchase price, not FMV	PoH shall start from date of purchase	From the date first held by donee	
8			> 50,000	Sale price, no applicability of section 50C [FMV if Section 50CA is applicable]	Taxable = FMV - purchase price	FMV Sec 49(4)	PoH shall start from date of purchase	From the date first held by donee	

* HC Ruling will apply

Class Notes

INCOME UNDER THE HEAD OF “CAPITAL GAINS”

[Sections: 45 to 55A]

Sections	Particulars
45(1)	Basis of Charge
45(1A)	Capital gain in case of insurance claim received on damage or destruction of capital assets.
45(1B)	Capital gain on ULIP Policy
45(2)	Capital gain on conversation of capital assets into stock in trade
45(2A)	Capital gain on transfer of security by depositary
45(3)	Capital gain on trade of capital assets by a partner/member to Firm/AOP/BOI as capital contribution
45(4)	Capital gain on distribution of capital assets by a firm/AOP/BOI to a partner/member
45(5)	Capital gain on transfer by way of compulsory acquisition of an asset
45(5A)	Capital gain on transfer under Specified Agreement
46	Capital gains on distribution of assets by companies in liquidation
	46(1) - Whether capital gain arises to company or not
	46(2) - Whether capital gain arises to shareholder or not
46A	Capital gains on purchase by company of its own shares or other specified securities
47	Transactions not regarded as transfer
48	Mode of computation
49	Cost with reference to certain modes of acquisition
50	Special provision for computation of capital gains in case of depreciable assets
50B	Special provision for computation of capital gains in case of slump sale
50C	Special provision for full value of consideration in certain cases
50D	FMV as a full value of consideration when it is unknown or indeterminable.
51	Advance money received
54	Profit on sale of property used for residence
54B	Capital gain on transfer of land used for agricultural purposes not to be charged in certain cases
54EC	Capital gain not to be charged on investment in certain bonds/Units
54F	Capital gain on transfer of certain capital assets not to be charged in case of investment in residential house
54H	Extension of time for acquiring new asset or depositing or investing amount of capital gain
55	Meaning of 'cost of improvement' and 'cost of acquisition'
55A	Reference to Valuation Officer
10(37)	Capital gains on compensation received on compulsory acquisition of agricultural land situated within specified urban limits
112 / 112A	Tax on long term capital gain
111A	Tax on short term gain arises on transfer of equity shares or units of equity oriented fund on which securities transaction tax has been charged

SECTION 45: SCOPE AND YEAR OF CHARGEABILITY OF CAPITAL GAINS

Sec 45	Transaction	Full value of consideration	Year of chargeability
(1)	Transfer of capital asset.	Consideration of Transfer	Year of Transfer
(1A)	Damage to, or destruction of, any capital asset. [Note 1]	Insurance compensation i.e. Money + Fair market value (on date of receipt) of other assets received	<u>Year of Receipt</u>
(2)	Conversion of a capital asset into stock in trade. [Note 2]	The FMV as on the date of conversion.	Year in which converted stock is sold [CG + PGBP]
(5)	Compulsory acquisition	Compensation or Enhanced Compensation.	<u>Year of First Receipt</u> [Note 2].

Notes:

- Section 45(1A) applies only when the damage/ destruction is due to –
 - Flood, typhoon, hurricane, cyclone, earthquake or other convulsion of nature
 - Riot or civil disturbance; or
 - Accidental fire or explosion; or
 - Action by enemy or action taken in combating an enemy (whether with or without declaration of war).
- Interest received in case of compulsory acquisition will be taxable as 'income from other sources' in the year in which it is received. **The taxable amount shall be = Amount of such interest × 50%.** (i.e. 50% of interest will be allowed as deduction).

→ **SECTION 45(1B) – Proceeds under a Unit Linked Insurance Policy**



Where any person receives, at any time during any previous year, any amount, under a ULIP issued on or after 1.2.2021, to which exemption under section 10(10D) does not apply on account of –

- premium payable exceeding ₹ 2,50,000 for any of the previous years during the term of such policy; or
- the aggregate amount of premium exceeding ₹ 2,50,000 in any of the previous years during the term of any such ULIP(s), in a case where premium is payable by a person for more than one ULIP issued on or after 1.2.2021,

then, any profits or gains arising from receipt of such amount by such person shall be chargeable to income-tax under the head “Capital gains” and shall be deemed to be the income of the such person for the previous year in which such amount was received. The income taxable shall be calculated in such manner as may be prescribed.

→ **SECTION 45(5A) – Transfer under Specified Agreement**

- Where the capital gain arises to an assessee, being an Individual or a HUF, from the transfer of a capital asset, being land or building or both, under a specified agreement, the capital gains shall be chargeable to income-tax as income of the previous year in which the certificate of completion for the whole or part of the project is issued by the competent authority.
- Full value of the consideration = SDV, on the date of issue of the said certificate, of his share, being land or building or both in the project + Consideration received in cash.
- The provisions of this sub-section shall not apply where the assessee transfers his share in the project on or before the date of issue of said certificate of completion, and the capital gains shall be deemed to be the income of the previous year in which such transfer takes place

Consequential amendments due to Section 45(5A):

(A) Cost of acquisition of the share in the project:

COA of the share in the project being land or building or both, in the hands of the Individual or HUF who was the owner of land or building or both shall be the amount which is deemed as full value of consideration under section 45(5A) mentioned above

(B) TDS on monetary consideration: Section 194-IC: 10%

SECTION 2(14) – DEFINITION OF CAPITAL ASSET

Capital asset means **property of any kind** held by an assessee, whether or not connected with his business or profession, **but does not include any stock-in-trade, PERSONAL EFFECTS** (excluding jewellery; drawings, paintings, work of Art etc), Rural agricultural land in India etc.

Capital Asset *includes*

- (a) any **securities held by a Foreign Institutional Investor (FII)** which has invested in such securities as per SEBI Regulations. Securities held by FII will be treated as **capital asset only** (even if it kept as Stock in Trade).
- (b) any **Unit Linked Insurance Policy to which exemption under clause (10D) of section 10 does not apply.**

Capital Assets Excludes Deposit Certificates issued under Gold Monetisation Scheme 2015

SECTION 2(47) – DEFINITION OF TRANSFER

Sale, exchange or relinquishment; extinguishment of any rights; Reduction of share capital; Compulsory acquisition thereof under any law; Conversion of capital asset into stock in trade of a business; the maturity/redemption of a Zero Coupon Bond; **Part-performance of the contract** [Sec 53A of the Transfer of property Act]; or enjoyment of any immovable property as member of a *co-operative society, company or other AOPs*

NATURE OF CAPITAL ASSETS

→ **Section 2(42A) defines Short-Term Capital Asset** as a capital asset held by an assessee for **not more than 36 months (Period of Holding)** *immediately preceding the date of its transfer.*

Period of 12 months shall be applicable only in case of following assets:

- a) **A Securities (other than Unit) listed in a recognized stock exchange in India;**
- b) **Units of an Equity Oriented Fund;**
- c) **Units of UTI / Zero Coupon Bond;**

In case of **Unlisted shares (equity or preference)**, period of 36 months is replaced by **24 Months.**

In case of **LAND/BUILDING**, period of 36 months is replaced by 24 Months.

SECTION 48 - MODE OF COMPUTATION OF CAPITAL GAINS

<u>Computation of Capital Gains</u>		
Full value of Consideration		XXXX
Less: Cost of Transfer	XXXX	
Less: ICOA / COA	XXXX	
Less: ICOI / COI	XXXX	XXXX
Gross Long Term Capital Gain / Short Term Capital Gain		XXXX
Less: Exemption U/s 54 / 54B / 54EC / 54F		XXXX
Taxable LTCG / STCG		XXXX

$$\text{ICOA means} = \text{COA} \times \frac{\text{CII for the year in which asset is transferred}}{\text{CII for the P.Y. in which the asset was first held by the assessee}}$$

$$\text{ICOI means} = \text{COI} \times \frac{\text{CII for the year in which asset is transferred}}{\text{CII for the year of 2001-02, whichever is later.}}$$

Alternate view in computing ICOA in special cases like Inheritance, Gift, Partition etc

As per the view expressed by Bombay High Court in *CIT v. Manjula J. Shah*, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner.

Cases covered: Gift, Will, Inheritance, Partition, Amalgamation, Demerger, Succession etc.

SECTION 55(2)(a) : COA IN CASE OF FOLLOWING INTANGIBLE ASSETS:

a) Goodwill of a business or Profession	d) Tenancy rights
b) Right to carry on any business or profession	e) Trade mark or brand name associated with a business or profession
c) Right to manufacture, produce / process any article or thing	f) Stage carriage permits (Route Permits)
	g) Loom Hours

Situation	Cost of Acquisition
In the case of acquisition of such asset by the assessee by purchase	Purchase price
In the case falling under sub-clauses (i) to (iv) of sub-section (1) of section 49 and where such asset was acquired by the previous owner (as defined in that section) by purchase	Purchase price for such previous owner
In any other case (including self-generated assets)	NIL

However, in case of a capital asset, being goodwill of a business or profession, in respect of which depreciation under section 32(1) has been obtained by the assessee in any previous year (upto P.Y. 2019-20), the cost of acquisition of such goodwill (as on 1.4.2020) would be the amount of the purchase price as reduced by the total amount of depreciation (upto P.Y. 2019-20) obtained by the assessee under section 32(1).

[Added by Finance Act 2021, effective from AY 2021-22]

SECTION 55(1) - COST OF IMPROVEMENT (COI)

- ✓ COI may be incurred by Assessee or Previous Owner
- ✓ Any COI incurred before 01-04-2001 is to be completely ignored.
- ✓ COI in respect of following assets is taken at NIL:
 - Goodwill of Business;
 - Right to manufacture, produce or process any article or thing;
 - Right to carry on any business.

SECTION 55(2)(b) : COA WHEN THE ASSET IS ACQUIRED BEFORE 01/04/2001

- ✓ If the Asset is acquired before 01/04/2001, COA or “FMV of the asset as on 01/04/2001” - HIGHER
- ✓ The option is however not available in respect of the following items:
 - (a) Intangible Assets mentioned above and
 - (b) Depreciable Assets

However, in case of capital asset, being land or building or both, the fair market value of such asset on 1-4-2001 shall not exceed the stamp duty value, wherever available, of such asset as on 1-4-2001.

SECTION 46 – CG in case of Liquidation of Company

- In the hands of company — Exempted Transfer. No CG to Company.
- In the hands of shareholders — Taxable as CG.

[Sale consideration of shares for computing CG shall be FMV of assets received on the date of distribution less deemed dividend under section 2(22)(c), if any. The period of holding shall be only upto the date of liquidation of the company.]

TAXABILITY ON PURCHASE OF OWN SECURITIES [SECTION 46A] – BUY BACK

In case of buyback of unlisted or listed shares *by domestic companies*, additional income tax@ 20% (plus surcharge@12% and cess@4%) is leviable in the hands of the company u/s 115QA.

Consequently, the income arising to the shareholders in respect of such buyback of listed or unlisted shares by the domestic company would be exempt under section 10(34A), where the company is liable to pay additional income-tax on the buyback of shares.

SECTION 49(4) – COA of GIFTED PROPERTY

If the Same is taxable in IOS, then COA shall be FMV/SDV which is considered for calculating Income under the head IOS. [New Cost, New Life] – RISTA “TUT” JATA HAI – PURANI BAAT YAAD NAHIN RAKHNI

SECTION 49(2AA) – COA OF SPECIFIED SECURITY OR SWEAT SHARES

COST OF ACQUISITION of such SECURITY or SHARES Shall be the Fair Market Value which has been taken into account for the purposes of calculating Perquisite under the head Salary.

COA IN CASE OF FINANCIAL ASSETS

Capital asset	Cost Of Acquisition	POH Will Start From
Shares/securities originally purchased from: <ul style="list-style-type: none"> ➤ Primary Market (Direct from Company) ➤ Secondary Market <ul style="list-style-type: none"> • Transaction through brokers • Transaction between parties directly 	<ul style="list-style-type: none"> ➤ Allotment price ➤ Purchase price + Brokerage ➤ Purchase price 	<ul style="list-style-type: none"> ➤ Date of allotment ➤ Date of Broker's note ➤ Date of Contract of sale
Right Share / Securities	➤ Offer price by the Co.	➤ Date of Allotment
Renoucement of right: <ul style="list-style-type: none"> ➤ For the person who renounces the right. ➤ For the person who purchased the right. 	<ul style="list-style-type: none"> ➤ Nil ➤ Offer price + Amount paid for Renoucement 	
Bonus shares / Securities	➤ Nil	➤ Date of Allotment



SECTION 50B – CAPITAL GAINS IN CASE OF SLUMP SALE

SLUMP SALE means the transfer of one or more undertakings, **by any means**, for a lump sum consideration without values being assigned to the individual assets and liabilities in such sales.

Here, "Transfer" shall have the meaning assigned to it in Section 2(47) [it would include sale, exchange, relinquishment of capital asset, extinguishment of any rights therein, compulsory acquisition etc.]

However, the values can be assigned to the assets for the limited purpose of payment of stamp duty, registration fees etc. This must be clarified in the agreement of slump sale.

LTCG: If the undertaking was owned by the assessee for **more than 36 months**. Certificate from a CA should be filled along with the return.

Mode of computation of capital gains: The capital Gains shall be computed in the following manner -

Full Value of consideration (FMV of the Capital Assets transferred)	XXXX
Less: Expenses wholly and exclusively in connection with such transfer	XXXX
Less: NET WORTH [Ignore Revaluation effect] of the undertaking (no indexation benefit even in case of long-term capital asset)	XXXX
Short Term/Long Term Capital gains	XXXX

Deemed full value of consideration [Section 50B(2)(ii)]

Fair market value of the capital assets as on the date of transfer, calculated in the prescribed manner (as per Rule 11UAE), shall be deemed to be the full value of the consideration received or accruing as a result of the transfer of such capital asset.

NET WORTH

For calculating the Net Worth, the Aggregate VALUE of total assets, ignoring revaluation effect, shall be-

- (a) **In case of depreciable assets:** the WDV of block of assets as per the Income Tax Act, 1961 (i.e. Section 43(6))
- (b) *In case of capital asset, being goodwill of a business or profession, which has not been acquired by the assessee by purchase from a previous owner [self-generated goodwill]:*
NIL
- (c) **In case of capital Assets for which the whole of the expenditure has been allowed or is allowable as a deduction u/s. 35AD:**
NIL
- (d) **In the case of any other assets:** The book value of such assets

Less:

Value of liability (as appearing in the books of a/c on the date of transfer of undertaking)

SECTION 49 (2C)– COA OF SHARES IN CASE OF DEMERGER

COA of Shares in resulting Company = COA X $\frac{\text{Net Book Value of the assets transferred}}{\text{Net Worth of the Demerged Company immediately before such demerger}}$

SECTION 51 - ADVANCE MONEY RECEIVED & FORFEITED

Advance or other money forfeited (retained) by the **Assessee (and not previous owner)** shall be deducted from **COA/FMV/WDV**. *Amount forfeited either before or after 1.4.1981 both is eligible for deduction.*

However, Amount forfeited on or after 01/04/2014, will not be deducted under this Section, but it will be taxable as IOS as per New Section 56(2)(ix)

SECTION 50C – SALE CONSIDERATION IN CASE OF TRANSFER OF LAND / BUILDING/BOTH

Where the consideration received (as declared) for **LAND OR BUILDING OR BOTH** is **LESS THAN** the Stamp Duty Value (SDV) **then, sales consideration shall be SDV**

Where the date of the agreement fixing the amount of consideration and the date of registration for the transfer of the capital asset **are not the same**, the value adopted or assessed or assessable by the stamp valuation authority **on the date of agreement** may be taken for the purposes of computing full value of consideration for such transfer **if** amount of consideration, or a part thereof, has been received by way of an account payee cheque or account payee bank draft or by use of electronic clearing system through a bank account or through such other electronic modes as may be prescribed, on or before the date of the agreement for transfer.

Where the value adopted or assessed or assessable by the stamp valuation authority does not exceed **110% of the consideration received or accruing as a result of the transfer**, the consideration so received or accruing as a result of the transfer shall, for the purposes of section 48, be deemed to be the full value of the consideration.

ON REFERENCE TO VALUATION OFFICER:

	Different situation		Consideration
Where value ascertained by a valuation officer	>	SDV	SDV
	<	<u>Value adopted or assessed or assessable by the SVA but more than 110% of declared value</u>	Value ascertained by a valuation officer u/s. 55A
	<	Declared value in the ROI or 110% of declared value	Value declared by Assessee

SECTION 55A - REFERENCE TO VALUATION OFFICER

If AO opines (a) estimated value by registered Valuer is **at variation from FMV**; (b) FMV of Assets exceeds declared value by ₹ 25,000 or 15%; (c) when circumstances warrant.

SECTION 50CA – SALE CONSIDERATION IN CASE OF TRANSFER OF UNLISTED SHARES

Where the consideration received or accruing as a result of the transfer by an assessee of a capital asset, **being share of a company other than a quoted share**, is less than the fair market value of such share determined in such manner as may be prescribed, the **value so determined** shall, for the purposes of section 48, be deemed to be the full value of consideration received or accruing as a result of such transfer.

SEC 10(37) – Exemption on compulsory acquisition of Agricultural Land on or after 01/04/2004

Individual & HUF; Agricultural Land Situated in Urban Area; Holding period – 2 Years or more; used for agriculture purpose; Consideration determined by CG/RBI;

SECTION 111A – TAX ON STCG ON SHARES/UNITS

- This Section provides for a **concessional rate of tax (i.e. 15%)** on the STCG on transfer of **Equity Share of a company or Units of a Equity Oriented Mutual Fund or a Unit of Business Trust**; Sale on or after 1.10.2004; STT Paid on sale
- **RESIDENT IND/HUF**: STCG will be reduced by the unexhausted basic exemption limit.
- **No Deductions under Chapter VI-A.**
- Concessional Tax rate is also applicable in the case of STCG which arises from a transaction undertaken in **foreign currency** on a recognized stock exchange **located in an International Financial Services Centre located in SEZ (evenif STT is not applicable).**
- **Surcharge level of 25% & 37% is not applicable**

SECTION 112 – TAX ON LONG TERM CAPITAL GAINS

- ✓ Where the Total Income of an assessee includes LTCG, tax is payable by the assessee @20% on such LTCG.
- ✓ **RESIDENT IND/HUF:** LTCG will be reduced by the **unexhausted basic exemption limit**.
- ✓ **Deductions under Chapter VI-A** cannot be availed in respect of such LTCG

Section 112A

1. Notwithstanding anything contained in Section 112, the tax payable **by an assessee** on his total income shall be determined in accordance with the provisions of sub-section (2), if—
 - i. the total income includes capital gains arise from the transfer of a long-term capital asset being an **equity share** in a company or a **unit of an equity oriented fund** or a **unit of a business trust**;
 - ii. **securities transaction tax** has
 - a. in a case where the long-term capital asset is in the nature of an equity share in a company, **been paid on acquisition and transfer** of such capital asset; or
 - b. in a case where the long-term capital asset is in the nature of a unit of an equity oriented fund or a unit of a business trust, **been paid on transfer** of such capital asset.
2. The tax payable by the assessee on the total income referred to in sub-section (1) shall be the aggregate of—
 - i. the amount of income-tax calculated on such **long-term capital gains exceeding one lakh rupees at the rate of 10%**; and
 - ii. the amount of income-tax payable on the total income as reduced by the amount of long-term capital gains referred to in sub-section (1) as if the total income so reduced were the total income of the assessee:
3. **RESIDENT IND/HUF:** Such LTCG will be **reduced by the unexhausted basic exemption limit**.
4. Requirement of STT payment **shall not apply** to a transfer undertaken on a recognised stock exchange **located in any International Financial Services Centre** and where the consideration for such transfer is received or receivable in foreign currency.
5. The Central Government may notify the **nature of acquisition** where STT is not required to be paid.
6. **Deductions under Chapter VI-A** cannot be availed in respect of such LTCG.
7. **Indexation is not permitted** to compute LTCG chargeable to tax under Section 112A
8. **Rebate under Section 87A is not available** against tax computed under Section 112A.
9. **Surcharge level of 25% & 37% is not applicable**

New Section 55(2)(ac)

Cost of Acquisition, In relation to a long-term capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust referred to in section 112A, **acquired before the 1st day of February, 2018** shall be **higher of-**

- i. the cost of acquisition of such asset; and
- ii. lower of –
 - a. the **fair market value** of such asset as on 31.01.2018; and
 - b. the **full value of consideration** received or accruing as a result of the transfer of the capital asset.

Meaning of Fair Market value (IMP):

S. No.	Circumstance	Fair Market Value
(i)	In a case where the capital asset is listed on any recognized stock exchange as on 31.01.2018	<p>If there is trading in such asset on such exchange on 31.01.2018 The highest price of the capital asset quoted on such exchange on the said date</p> <p>If there is no trading in such asset on such exchange on 31.01.2018 The highest price of such asset on such exchange on a date immediately preceding 31.01.2018 when such asset was traded on such exchange.</p>
(ii)	In a case where the capital asset is a unit which is not listed on any recognized stock exchange as on 31.01.2018	The net asset value of such unit as on the said date
(iii)	<p>In a case where the capital asset is an equity share in a company which is</p> <ul style="list-style-type: none"> - not listed on a recognized stock exchange as on 31.01.2018 but listed on such exchange on the date of transfer - listed on a recognized stock exchange on the date of transfer and which became the property of the assessee in consideration of share which is not listed on such exchange as on 31.01.2018 by way of transaction not regarded as transfer under section 47 	An amount which bears to the cost of acquisition the same proportion as CII for the financial year 2017-18 bears to the CII for the first year in which the asset was held by the assessee or on 01.04.2001, whichever is later.

Section 94(7)

Purchase of shares/units **3 months prior to record date and sells within 9 months (units) and 3 months (Securities)**, then any loss on sale shall be ignored **to the extent of exempted income**.

BONUS STRIPPIN G – Section 94(7) – ONLY UNITS

Purchase of units **3 months prior to record date and sells within 9 months** (units), then any loss on sale shall be ignored and such loss shall be treated as COA of such additional unit on their subsequent sale.

Taxability on conversion of Inventory into Capital Aseet**Section 28(via)**

The fair market value of inventory as on the date on which it is converted into, or treated as, a capital asset determined in the prescribed manner shall be chargeable to tax as business income.

Explanation 1A to Section 43(1)

Where a capital asset referred to in clause (via) of section 28 is used for the purposes of business or profession, the actual cost of such asset to the assessee shall be the fair market value which has been taken into account for the purposes of the said clause.

Section 49(9)

Where the capital gain arises from the transfer of a capital asset referred to in clause (via) of section 28, the cost of acquisition of such asset shall be deemed to be the fair market value which has been taken into account for the purposes of the said clause.

Explanation 1 to Section 2(42A)

In the case of a capital asset referred to in clause (via) of section 28, the period shall be reckoned from the date of its conversion or treatment.

EXEMPTIONS FROM CAPITAL GAINS AVAILABLE IN RESPECT OF ASSETS OTHER THAN INDUSTRIAL UNDERTAKINGS

[SECTIONS 54, 54B, 54EC AND 54F]

Provisions	Profit on sale of property used for residence [Section 54]	Capital gains on transfer of agricultural land [Section 54B]	Investment in certain bonds [Section 54EC]	Capital gain on transfer of certain capital assets not to be charged in case of investment in residential house [S. 54F]
1. Assessee	Individual/HUF	Individual/HUF	Any person	Individual / HUF
2. Asset transferred	Residential house property being buildings or lands appurtenant thereto.	Agricultural land used by individual or his parent <u>for agricultural purposes during 2 years</u> preceding date of transfer	LTCA being Land or building or both	Any capital asset not being residential house property. [Note: Exemption is not available if assessee owns more than 1 residential house (other than new) on date of transfer of original asset; or
3. Nature of Asset	Long term	Long term	Long term	Long term
4. New Asset to be purchased/ constructed	Residential house property i.e. buildings or lands appurtenant thereto <u>Where the amount of capital gains exceeds ₹ 2 crore</u> One residential house in India <u>Where the amount of capital gains does not exceed ₹ 2 crore</u> Two residential house in India Where during any assessment year, the assessee has exercised the option to purchase or construct two residential houses in India, he shall not be subsequently entitled to exercise the option for the same or any other assessment year. <u>However, he can continue to claim exemption on purchase or construct of one house.</u>	Agricultural land (urban or rural)	Bonds, redeemable after 5 years issued by - (a) National Highway Authority of India; or (b) REC, Maximum - ₹ 50 lakhs Investment made during the PY in which the original assets are transferred and in the subsequent financial year does not exceed ₹ 50,00,000.	Residential house property i.e. buildings or lands appurtenant thereto Exemption under this section is available if the investment is made in One Residential House and that too the house is situated in India.

5. Time-limit for purchase/ construction	Within 1 year before or 2 years after date of transfer; and Construction: Within 3 year from date of transfer	Purchase within 2 years from the date of transfer	Within 6 months from the date of transfer of original asset.	Purchase: Within 1 year before or 2 years after date of transfer; and Construction: Within 3 year from date of transfer
6. Deposit scheme	Applicable	Applicable	Not Applicable	Applicable
7. Amount of Exemption	Lower of Capital gains or investment in new asset	Lower of capital gains or cost of new asset	Lower of - capital gains or investment in new asset	Cost of new house x LTCGs
8 Exemption will be withdrawn on-	Transfer of the new asset within 3 years from its purchase/ construction	Transfer of the new asset within 3 years from its purchase	Transfer of new asset, conversion thereof in money or taking loan or advance on its security within 5 years from date of its acquisition	Net consideration (a) assessee purchases within 2 years or constructs within 3 years from date of transfer of original asset, a residential house other than new house; or (b) transfers new asset within 3 years from date of its purchase/construction
9. Taxability on Withdrawal	Exemption claimed earlier shall be reduced from cost of acquisition of new asset.	Exemption claimed earlier shall be reduced from cost of acquisition of new asset.	Exempted capital gain will be taxable as long-term capital gains in previous year in which such transfer/conversion takes place.	Amount exempted earlier shall be taxable as long-term capital gains in previous year in which - (a) another residential house is purchased or constructed; or (b) new asset is transferred.

SECTION 54EC - Investment in any bond (redeemable after 5 years) notified by the CG shall also be eligible investment for the purpose of claiming exemption under Section 54EC. For this purpose, bond issued by **Power Finance Corporation Limited** & bond issued by **Indian Railway Finance Corporation Limited** is considered as long term specified asset.

Extension of time in case of compulsory acquisition [Section 54H] : Where transfer of original assets referred to in sections 54, 54B, 54EC and 54F, is by way of compulsory acquisition under any law, the period for acquiring new asset referred to in those sections or the period available under those sections for depositing or investing the amount of capital gain in relation to such compensation, which is not received on the date of the transfer, shall be reckoned from the date of receipt of such compensation.



SURAJ AGRAWAL TAX CLASSES

SECTION 47 – TRANSACTIONS NOT REGARDED AS TRANSFER

Section	Nature of transaction not regarded as transfer	Conditions to be fulfilled for the transaction not to be regarded as transfer between Transferor and Transferee (Section 47)	Holding Period in the hands of the Transferee, in case of subsequent transfer by him Sec. 2(42A)	Cost in the hands of Transferee [Section 49]
47(i)	Distribution of Capital Asset in total or partial partition of HUF	—	Previous Owner's holding period shall be included.	Cost to Previous Owner
47(iii)	Transfer of Capital Asset under Gift/will etc.	Capital Assets other than Shares, Debentures or Warrants allotted directly or indirectly under ESOP.	Previous Owner's holding period shall be included.	Cost to Previous Owner
47(iv)(v)	Transfer of Capital Asset by Holding Company to its 100 % Indian Subsidiary or vice versa	—	Previous Owner's holding period shall be included.	Cost to Previous Owner
47(vi)	Transfer of a Capital Asset, in a scheme of amalgamation, by the Amalgamating Company to the Amalgamated Company.	Amalgamated Company is an Indian Company.	Previous Owner's holding period shall be included.	Cost to Previous Owner
47 (vib)	Transfer of Capital Asset, by a Demerged Company to the Resulting Company.	Resulting Company is an Indian Company.	Holding Period in Demerged Company shall be included.	Cost to Previous Owner
47 (vid)	Transfer, or Issue of Shares by a Resulting Company to the Shareholders of Demerged Company.	The issue is made in consideration of demerger of the undertaking.	Holding Period in Demerged Company shall be included.	
47(vii)	Transfer by Shareholders in a scheme of Amalgamation: <ul style="list-style-type: none"> Asset Transferred: Shares held in Amalgamating Company. Consideration received: Shares of Amalgamated Company. 	The Amalgamated Company is an Indian Company.	Period of holding of Amalgamating Company Shares shall be included.	Cost of Previous Asset.
47 (ix)	Transfer of the following: Work of Art, Archaeological, Scientific or Art Collections, Books, Manuscripts, Drawings, Paintings, Photographs, Printings.	The transfer is made to Government, University, National Museum, National Art Gallery, National Archives, any institution notified by Central Government to be of national importance.	Not Applicable	Not Applicable

47 (x)	Transfer by way of conversion of Bonds, Debentures, Debenture Stock and Deposit Certificates in any form into Shares or Debentures of that Company.	—	<u>Holding Period of earlier asset can now be taken into account</u>	Cost of New Asset = That portion of cost of Old Asset that is converted.
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Section 47

1. Any transfer of Capital asset, being **government securities** carrying a periodic payment of interest, made **outside India** through an intermediary dealing in settlement of securities, **by a NR to another NR** shall not be considered as transfer.
2. Any transfer of **Sovereign Gold Bond** issued by the Reserve Bank of India under the Sovereign Gold Bond Scheme, 2015, **by way of redemption, by an assessee being an individual [Indexation benefit is available in case of LTCG arising from transfer of such bond]**
3. **Transfer of Rupee Denominated Bond outside India by a Non-Resident to another Non-Resident:** Any transfer, made outside India, of a Capital Asset being rupee denominated bond of an Indian Company issued outside India, by a non-resident to another non-resident.
4. **Any Transfer by way of conversion of preference shares of a company into equity shares of that company shall not be regarded as a Transfer.**
[In case of subsequent transfer, **cost of acquisition** of preference shares will be treated as COA of equity shares (Section 49). **POH** in case of equity shares will include period for which the preference shares were held by the assessee.]

INCOME FROM OTHER SOURCES

CASUAL INCOME

1. Income in the nature of winning from lotteries, crossword puzzles, horse races (including camel race), card games and other games of any sort, gambling, betting etc.
2. Section 115BB - Tax @ 30%
3. Deduction of Expenses not permissible
4. Other loss cannot set off. Also loss from casual source is to be ignored.
5. No Deduction under Chapter VI-A [Section 80C to 80U]
6. No Adjustment of unexhausted BEL.
7. **Grossing up where earning given after TDS**
TDS u/s 194BB: Winning from Horse Race (*excluding camel race*) **exceeding ₹ 10,000**
TDS u/s 194B: Other Winnings **exceeding ₹ 10,000.**
8. Income derived from owning & maintaining racehorses is not a casual income and normal slab rate will be applicable on such income.

SUM RECEIVED UNDER A KEYMAN INSURANCE POLICY

Any sum received under a Keyman insurance policy (including any bonus) is chargeable under the head "IOS" if such income is not chargeable under the head "PGBP" or under the head "Salaries" i.e. if such sum is **received by any person [Family Members]** other than the employer who took the policy (**PGBP Income**) and the employee in whose name the policy was taken (**Salary Income**).

Taxability of Family Pension

- 1) Family pension means pension received by the family members of the deceased employee. It is taxable u/h IOS.

Deduction u/s 57: Least of the following is allowed as a deduction:

- (a) 1/3rd of such income
- (b) ₹ 15,000

Note: This Deduction would not be available in case of an employee, being an assessee, who opts for the provisions of section 115BAC.

- 2) **Exemptions:** Pension received by Army personnel who are recipient of gallantry awards or Family pension received by his family members is exempt in full. **[Section 10(18)].**

Family pension received by the widow or children or nominated heirs of a member of the armed forces (including para-military forces) whose death has occurred in the course of operational duties is exempt in full **[Section 10(19)].**

INTEREST ON COMPENSATION OR ENHANCED COMPENSATION

Interest received on compensation/enhanced compensation deemed to be income in the year of receipt and taxable under the head "Income from Other Sources" [Sections 56(2)(viii)]. However, a fixed deduction of 50% of interest received will be allowed u/s 57 irrespective of actual expenses.

Compensation or any other payment received in connection with termination of his employment [Section 56(2)(xi)]

Any compensation or any other payment, due to or received by any person, by whatever name called, in connection with the termination of his employment or the modification of the terms and conditions relating thereto shall be chargeable to tax under this head.

DIVIDEND INCOME

- ✓ Dividend shall include any dividend u/s 2(22)(a), 2(22)(b), 2(22)(c), 2(22)(d), 2(22)(e) and such dividends shall be **Taxable** in the hands of shareholders. **TDS under Section 194 (10%) is applicable.**

- ✓ Dividend received from a **FOREIGN COMPANY - Taxable**

[Only Interest expenditure to earn such income is allowed as deduction subject to a maximum of 20% of such income included in the total income, without deduction under this section.]

TAXATION OF CERTAIN FOREIGN DIVIDEND @ 15% [Section 115BBD]

Section 115BBD provides that where Total Income of an Indian Company includes any dividend income [Except 2(22)(e)] received from a foreign specified company [in which Indian company has 26% of holding], then such dividends shall be taxable at the rate of 15% (plus applicable surcharge and cess) on the gross amount of dividends.

DEEMED DIVIDEND

- a) any distribution of assets
- b) any distribution of debentures etc by a company to its shareholders **OR** Any distribution of shares by way of bonus by a company to its preference shareholders.
- c) Any distribution of assets is made by a company on its liquidation
- d) Any Distribution of assets by company to its shareholders on reduction of its capital
- e) Any payment, by a **closely held company**, of any sum by **way of loan or advance**:
 - ✓ to a shareholder holding not less than 10% of voting power through shares, **OR**
 - ✓ to any concern, in which **such a shareholder** is a member/partner and in which he has a substantial interest, **OR**
 - ✓ to any persons on behalf of or for the individual benefit of **such a shareholder**, shall be deemed to be the dividend to the extent to which the company possesses **accumulated profits**.

Note:

1. Bonus shares given to equity shareholders are not treated as dividend.
2. Any payment made by a company on purchase of its own shares from a shareholder is not a deemed dividend.

Taxability of Allowances to MLA/MP

Daily Allowances & Constituency Allowances to MLA & MP are exempt from tax u/s 10(17).

Note: This exemption would not be available in case of section 115BAC.

PROVISION RELATING TO TAXABILITY OF INTEREST ON SECURITIES

- ✓ Interest on securities may be taxed on Receipt basis or on Due basis, depending on the system of accounting adopted by the assessee. If no system of accounting is followed, it will be taxable on 'DUE' basis.
- ✓ **LIABILITY FOR TAX:** The **person who owns the security on the due date** of payment of interest is liable for the entire interest even if he is not the owner for the entire period to which the interest relates.
- ✓ **INTEREST AFTER TDS:** If interest is received after TDS, then such amount is required to be grossed up to include in the total income.
Rate of TDS = 10% [In case of Govt. Securities – Rate of TDS is NIL]
- ✓ **8% Taxable Saving Bond:** Rate of TDS is 10% if interest > ₹ 10,000
- ✓ **7.75% GOI Saving (Taxable) Bond:** Rate of TDS is 10% if interest > ₹ 10,000
- ✓ No TDS is deductible if debentures (whether listed or not) is issued by a widely held company if interest is paid /payable to a Resident Individual/HUF by an account payee cheque & **the aggregate amount of such interest during the FY does not exceeds ₹ 5,000**

Section 10(15) – EXEMPTED INTEREST INCOME

- Interest on notified bonds issued by a local authority.
- **Interest from Deposit Certificates issued under the Gold Monetisation Scheme, 2015**
- Interest on notified bond/debentures of Public Sector Company.

[However, Interest from Tax Saving Bonds and POMIS is taxable]

Interest from Post Office Saving Bank Accounts: Interest from Post Office Saving Bank Accounts is exempt to the extent of ₹ 3,500 in case of an Individual Account and ₹ 7,000 in the case of Joint Account.

Section 10(11A)

Interest Income from account opened as per **Sukanya Samridhi Account** Rules 2014 is exempt from AY 16-17. Amount Withdrawal will also be exempt. [Amount deposited in SSA will qualify for deduction u/s 80C]

Advance forfeited due to failure of negotiations for transfer of a capital asset to be taxable as "Income from other sources" [Section 56(2)(ix)]

Clause (ix) has been inserted in section 56(2) to provide for the taxability of any sum of money, received as an advance or otherwise in the course of negotiations for transfer of a capital asset. Such sum shall be chargeable to income-tax under the head 'Income from other sources', if such sum is forfeited and the negotiations do not result in transfer of such capital asset.

Share premium in excess of the FMV to be treated as income [Section 56(2)(viib)]

Section 56(2)(viib) provides that where a company, not being a company in which the public are substantially interested (i.e. Closely held Company), receives *any consideration from issue of shares in excess of the face value* of such shares from *any person being a resident*, then *consideration as exceeds from FMV* of the shares shall be chargeable to income tax under the head "IOS"

METHOD OF ACCOUNTING

- 1) Income chargeable under this head [other than deemed dividend under section 2(22)(e)] has to be computed in accordance with the Cash OR Mercantile system of accounting regularly employed by the assessee.
- 2) However, deemed dividend under section 2(22)(e) is chargeable to tax on receipt basis under section 8, irrespective of the method of accounting followed by the assessee.
- 3) Interest on compensation / enhanced compensation is taxable on receipt basis irrespective of the method of accounting followed by the assessee.

PREVIOUS YEAR FOR UNDISCLOSED SOURCES OF INCOME

✓ Unexplained Cash Credits [Section 68]

Any sum is found credited in the books of assessee and he offers no explanation about its nature and source OR the explanation offered is not satisfactory in the opinion of AO, then the amount so credited is treated as the income of the Previous Year in which the same is found credited.

Further, Section 68 of the Act has also been amended to provide that the nature and source of any sum credited, as share application money, share capital, share premium etc., in the books of a closely held company shall be treated as explained only if the source of funds is also explained by the assessee company in the hands of the resident shareholder (other than regulated entity) and such explanation in the opinion of the AO is found to be satisfactory.

- ✓ **Unexplained Investment [Sec. 69]**
- ✓ **Unexplained Money etc. [Sec. 69A]**
- ✓ **Investment not fully disclosed [Sec. 69B]**
- ✓ **Unexplained Expenditure [Sec. 69C]**
- ✓ **Amount borrowed or repaid on Hundi other than by way of account payee cheque [Sec. 69D]**

Taxation of Cash Credit, Unexplained Money, Unexplained Investment etc. covered u/s 68, 69, 69A, 69B, 69C & 69D [Section 115BBE]

- ✓ **Section 115BBE has been inserted to tax the unexplained** credits, money, investment, expenditure, etc., which has been deemed as income under section 68, 69, 69A, 69B, 69C & 69D.
- ✓ **Tax Rate: 60% (plus surcharge@25% and cess@3% as applicable)**
- ✓ No deduction in respect of any expenditure or allowances or **Set off of any loss** shall be allowed in computing above deemed income. **Benefit of Basic Exemption Limit is also not available** while computing tax liability.

Bond Washing Transactions [Section 94]

Section 94(1) provides that where the owner of a security transfers the security just before the due date of interest and buys back the same immediately after the due date and interest is received by the transferee, such interest income will be deemed to be the income of the transferor and would be taxable in his hands.

Restrictions on Allowability of expenditure [Section 14A]

As per section 14A, expenditure incurred in relation to any exempt income is not allowed as a deduction while computing income under any of the five heads of income [Sub-section (1)].

Taxability of Gift

Section 56(2)(x) – Gift Taxability from 01.04.2017: - ANY PERSON – Widening scope of Gift Provisions

Gift of any sum of money or property or transfer of property for inadequate consideration on or after 1st April, 2017 to be subject to tax in the hands of Any Person as IOS subject to the following:

<u>Nature of asset</u>	<u>Particulars</u>	<u>Taxable value</u>
Money	Without consideration	The whole of aggregate amount if the same exceeds ₹ 50,000.
Movable property	Without consideration	The aggregate Fair Market Value (FMV) of the property, if it exceeds ₹ 50,000.
Movable property	Inadequate consideration	The difference between the aggregate FMV and the consideration, if such difference exceeds ₹ 50,000.
Immovable property	Without consideration	The Stamp Duty Value [SDV] of the property, if it exceeds ₹ 50,000. [Each Property Separately]
Immovable property	Inadequate consideration	The difference between the SDV and the consideration, if such difference exceeds higher of the following amount: a) ₹ 50,000 or b) 10% of the consideration [Each Property Separately]

Further, the difference between SDV & actual purchase consideration shall be taxable under section 56(2)(x) only if SDV **exceeds 120% of the purchase consideration**, if the following conditions are satisfied, namely:-

- i. the transfer of such residential unit takes place **during the period beginning from the 12th day of November, 2020 and ending on the 30th day of June, 2021;**
- ii. such transfer is by way of **first time allotment of the residential unit to any person;** and
- iii. the consideration paid as a result of such transfer by the purchaser **does not exceed ₹ 2 crore**

"Residential unit" means an independent housing unit with separate facilities for living, cooking and sanitary requirement, distinctly separated from other residential units within the building, which is directly accessible from an outer door or through an interior door in a shared hallway and not by walking through the living space of another household.

[Amended by Finance Act 2021, effective from AY 2021-22]

Note:

- 1) Gift provisions will not be applicable **if property is received as stock in trade, consumable stores and raw materials.**
- 2) **Sum of money includes** not only cash but also cheque, drafts, fixed deposits receipts or a NSC since it represents a sum of money though not in cash.
- 3) For this purpose, **“property” means the capital Asset** of the assessee namely immovable property being land or building or both, shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures or any work of art or bullion.
- 4) **Stamp Duty Value** means the value adopted by any authority for the purpose of payment of stamp duty in respect of an immovable property.
- 5) If the **Stamp Duty Value of immovable property is disputed** by the assessee, the AO may refer the valuation of such property to a Valuation Officer. **In such a case, the provisions of section 50C shall, as far as may be, apply for determining the value of such property**
- 6) **When date of agreement and date of registration are not same** - Where the date of an agreement fixing the value of consideration for the transfer of the asset and the date of registration of the transfer of the asset are not same, the stamp duty value may be taken as on the date of the agreement for transfer and not as on the date of registration for such transfer. However, this exception shall apply only in those cases where amount of consideration (or a part thereof) for the transfer has been **paid by way of an account payee cheque or an account payee draft or by use of electronic clearing system through a bank account or through such other electronic modes as may be prescribed** on or before the date of the agreement.
- 7) **Exceptions: However, any gift received from following ways would be outside the ambit of Section 56(2)(x):**
 - (1) **from any relative; or**
 - (2) **on the occasion of the marriage** of the individual; or
 - (3) **under a will** or by way of inheritance; or
 - (4) **in contemplation of death** of the payer or donor, as the case may be; or
 - (5) **from any local authority; or**
 - (6) **from any fund or foundation or university or other educational institution or hospital or other medical institution or any trust or institution** referred to in section 10(23C); or
 - (7) **by any fund or trust or institution or university or other educational institution or hospital or other medical institution** referred to in section 10(23C)(iv)/(v)/(vi)/(via);
 - (8) **from or by any trust or institution registered under Sec 12AA or 12AB [Charitable or Religious Trust]**
 - (9) **from an Individual by a Trust created or established solely for the benefit of relative of the Individual.**
 - (10) **from HUF on Total/Partial Partition of HUF by members**
 - (11) **Asset received by Amalgamated Indian company from Amalgamating company**
 - (12) **From Holding Company to 100% Subsidiary Company or vice versa where transferee is an Indian Company.**
 - (13) **Asset received by Indian Resulting Company from Demerged company in a demerger**
 - (14) **Any shares received by shareholders under Amalgamation/Demerger which is not regarded as Transfer u/s 47.**

- For the purpose of this clause, the expression **"RELATIVE"** means

In Case of Individual:

- (i) spouse of the individual,
- (ii) brother or sister of the **individual**,
- (iii) brother or sister of the **spouse** of the individual,
- (iv) brother or sister of **either of the parents** of the individual,
- (v) any lineal ascendant or descendant of the individual,
- (vi) any lineal ascendant or descendant of the spouse of the individual, and
- (vii) spouse of a person referred to in items (ii) to (vi) mentioned above.

In Case of HUF: Any Member

Clubbing Provisions: As per Section 64(2), if a member of the HUF converts his separate property into the property belonging to the family otherwise than for adequate consideration, ***the income derived from the converted property shall be deemed to arise to the individual and not the family.***

CA INTERMEDIATE - MAY & NOV 22 EXAM

Assessment Year 2022-23

By: CA SURAJ AGRAWAL - SATC

DEDUCTION CHAPTER – SECTION 80C TO 80U [CHAPTER VI-A]

- A.** Benefit of deduction from 80-IA to 80RRB [Income based Deductions] **will not be** available if return is not filed within due date of Section 139(1).
- B.** Where the assessee **fails to make a claim in his return** of income for any deduction under section 10AA or under any provision of this Chapter under the heading "C. Deductions in respect of certain incomes" i.e Section 80-IA to section 80RRB, **no deduction shall be allowed.**
- C. If Individual/HUF has opted for the provisions of Sec 115BAC:**
No Deduction under chapter VIA is available except
- Employer's contribution towards NPS under Section 80CCD(2)
 - Deduction under section 80JJAA
 - Deduction under Section 80LA (IFSC Units) – This Section is NOT in CA Intermediate Syllabus**
- D. No deduction is allowed in respect of the following incomes:**
- Long Term Capital Gains** referred u/s 112 [20% or 10% (in specified cases)] **or u/s 112A**, and **Short Term Capital gains** referred u/s 111A [15%].
 - Winnings from lotteries, races, etc. as referred to in **Section 115BB [30%]**.

SECTION 80C to SECTION 80U

<p>Section 80C</p> <p style="text-align: center;">-</p> <p style="text-align: center;">Ind./HUF</p> <p style="text-align: center;">-</p> <p style="text-align: center;">₹ 150,000</p>	<p>A. Individual & HUF</p> <p>B. Maximum Limit: ₹ 150,000</p> <p>C. Nature of Investments/Payments:</p> <ol style="list-style-type: none"> 1. National Saving Certificates including accrued interest 2. Units of Mutual Fund or UTI 3. Notified NABARD Bonds 4. Notified Annuity plan of LIC 5. Life Insurance Policy Premium (Self, Spouse, Child) <ul style="list-style-type: none"> - 20% of sum assured in policy is taken before 01/04/2012. - 10% of sum assured in policy date is on or after 01/04/2012 - 15% of sum assured if policy is taken on or after 01/04/2013 for disable person or person suffering from specified disease <p style="background-color: yellow;">[Also read Section 10(10D) – Page 12.10]</p> <ol style="list-style-type: none"> 6. Units of ULIP (Self, Spouse, Child) 7. PPF Contribution (Self, Spouse, Child) 8. SPF/ASF/RPF - Employee's Contribution only 9. Notified Pension Fund of MF/UTI 10. 5 Years Notified Bank FD 11. Senior Citizen Saving Scheme 12. Principal repayment of House Loan including payment of stamp duty & registration fee 13. Contribution to additional account of NPS (Tier II) by CG Employee only 14. Sukanya Samriddhi Scheme 15. Tuition Fee – Full time education in India (Maximum 2 child)
<p>Section 80CCC</p> <p style="text-align: center;">-</p> <p style="text-align: center;">Individual</p> <p style="text-align: center;">-</p> <p style="text-align: center;">₹ 150,000</p>	<p>A. ANY INDIVIDUAL (Resident or Non-resident)</p> <p>B. Amount paid or deposited for any annuity plan of LIC/ Any other Insurer for receiving Pension from the Pension Fund [LIC or Any other insurer Pension Fund]</p> <p>C. Maximum Limit: ₹ 150,000</p> <p>D. Taxable as Income on Withdrawal (including death case)</p>
<p>Section 80CCD</p>	<p>A. Deduction to any INDIVIDUAL</p> <p>B. Employee's Contribution (including Self-employed) as well as Employer Contributions to New Pension Scheme [NPS] / CG Pension Fund</p> <p>C. Quantum of Deduction:</p> <p>(A) In Case of Employment:</p> <ol style="list-style-type: none"> a. Contribution made by the employee or 10% of Salary whichever is lower [80CCD(1)] & b. Contribution made by the employer or 10% of Salary (14% of salary, in case of contribution made by the Central Government) whichever is lower [80CCD(2)]

	<p>(B) In Case of Self Employment: Contribution made <u>or 20% of GTI, whichever is less [80CCD(1)]</u></p> <p>D. The entire employer's contribution would be included in the Salary of the employee. However, deduction under section 80CCD would be restricted to 10% of salary.</p> <p>E. "Salary" includes Dearness Allowance, if the terms of employment so provide, but excludes all other allowances and perquisites [Basic Salary + DA (R)]</p> <p>F. 80CCD(1B) – An Individual is eligible for additional deduction of upto ₹ 50,000 in respect of the whole of the amount paid or deposited under NPS, whether or not any deduction is allowed under section 80CCD(1).</p> <p>G. Any amount received from Pension account shall be taxed as income in the year of receipt in the hands of the assessee. However, amount received by nominee on the death of the assessee shall not be taxable.</p> <p>H. However, amount received on maturity will not be taxable if the same is used for purchasing an annuity plan in the same previous year. Pension received from such annuity plan will be taxable to assessee/nominee</p> <p>I. Any payment from NPS to assessee on closure of account/scheme, to the extent of 60% amount payable is Exempt. [Section 10(12A)]</p> <p>J. Any payment from NPS to an Employee on partial withdrawal made out of his account, to the extent it does not exceed 25% of the amount of contributions made by him is Exempt. [Section 10(12B)]</p> <p>K. ATAL PENSION YOJNA IS ALSO ELIGIBLE FOR DEDUCTION U/S 80CCD</p>
<p>Section 80CCE</p>	<p>A. This section restricts the aggregate amount of deduction under Section 80C, 80CCC and 80CCD (1) to ₹ 1,50,000 lakh.</p> <p>B. Deduction in relation to employer's contribution to CG Pension scheme shall be available over and above ₹ 1,50,000 lakh limit.</p> <p>C. Further, Assessee's contribution to CG Pension fund as per Section 80CCD(1B) [₹ 50,000] is also not covered in limit specified in Section 80CCE.</p>
<p>Section 80D</p>	<p>A. <u>INDIVIDUAL</u> or <u>HUF</u></p> <p>B. <u>Nature of payment:</u></p> <p>(a) Premium towards <u>Mediclaim Health Insurance Policy</u> taken</p> <p>a. In case of an Individual: In the name of Individual, Spouse, Parents and <u>dependent children</u></p> <p>b. In case of HUF: In the name of any Member</p> <p>(b) In case of <u>Senior Citizen</u>, Medical expenditure incurred if no payment is made for health insurance premium. (HUF – Any Member being Senior Citizen)</p>

	<p>(c) Contribution to Central Government Health Scheme [CGHS] <u>or other health scheme as notified by CG</u> is also eligible for deduction if it is taken in the name of Individual, Spouse or Dependent Children.</p> <p>(d) Any payment made by an individual on account of preventive health check up of self, spouse, dependent children or parent(s) during the PY [maximum amount – 5,000 within overall limit]</p> <p>C. Maximum Amount of Deduction:</p> <p>a) Premium paid or ₹ 25,000; whichever is lower [Self, Spouse, Child]</p> <p>b) Premium paid or ₹ 25,000; whichever is lower [Parents]</p> <p>c) Premium paid or ₹ 25,000; whichever is lower [HUF]</p> <p>FOR SENIOR CITIZEN - Limit is ₹ 50,000</p> <p>D. Payment shall be made</p> <p>a) by any mode, including cash, in respect of any sum paid on account of preventive health check up (maximum limit – ₹ 5,000);</p> <p>b) by any mode, other than cash, in all other cases.</p> <p>E. IMP: In case of single premium health insurance policies having cover of more than one year, Deduction under section 80D shall be allowed on proportionate basis for the number of years for which health insurance cover is provided, subject to the specified monetary limit.</p>						
<p>Section 80DD</p>	<p>A. Resident Individual & Resident HUF</p> <p>Individual: Dependent Disabled Relative being Spouse, Children, Parents, Brothers & Sisters of that Individual</p> <p>HUF: Any member</p> <p>B. Nature of expenses:</p> <p>1. Any amount paid for the medical treatment (including nursing), training and rehabilitation of a dependent, being a person with disability, or</p> <p>2. Any amount paid or deposited under a scheme of LIC or any other insurer for the maintenance of such dependent.</p> <p>C. FIXED DEDUCTION: In case of</p> <table border="0"> <tr> <td>Person with Disability</td> <td>-</td> <td>₹ 75,000</td> </tr> <tr> <td>Person with severe disability</td> <td>-</td> <td>₹ 1,25,000</td> </tr> </table> <p>D. Actual expenditure is not relevant</p> <p>E. Any amount received from annuity plan of LIC or UTI etc which is taken for the benefit of disabled person and such person predeceases – TAXABLE</p>	Person with Disability	-	₹ 75,000	Person with severe disability	-	₹ 1,25,000
Person with Disability	-	₹ 75,000					
Person with severe disability	-	₹ 1,25,000					
<p>Section 80U</p>	<p>A. ELIGIBLE ASSESSEE: RESIDENT INDIVIDUAL with disability</p> <p>B. FIXED DEDUCTION: In case of</p> <table border="0"> <tr> <td>Person with Disability</td> <td>-</td> <td>₹ 75,000</td> </tr> <tr> <td>Person with severe disability</td> <td>-</td> <td>₹ 1,25,000</td> </tr> </table> <p>C. Actual expenditure is not relevant</p>	Person with Disability	-	₹ 75,000	Person with severe disability	-	₹ 1,25,000
Person with Disability	-	₹ 75,000					
Person with severe disability	-	₹ 1,25,000					

<p>Section 80DDB</p>	<p>A. Resident Individual & Resident HUF Individual: Self or Dependent Relative being Spouse, Children, Parents, Brothers & Sisters of that Individual HUF: Any member</p> <p>B. The assessee has paid any amount for the medical treatment of Specified Disease (Rule 11DD).</p> <p>C. Deduction: Lower of Amount Paid or ₹ 40,000 (In case of Senior Citizen – Limit is ₹ 100,000).</p> <p>D. The final deduction under this section shall be reduced by the amount received, if any, under insurance from an insurer, or reimbursed by an employer, for the medical treatment of the assessee or the dependent. [Amount derived as above Less Insurance claim received]</p>
<p>Section 80E</p>	<p>A. Deduction to 'Individual' only (Resident or Non-Resident)</p> <p>B. The loan must have been taken for the purpose of pursuing his/her own higher education or for higher education of his or her relative.</p> <p>C. Deduction in respect of Interest paid</p> <p>D. No Monetary Limit</p> <p>E. Maximum permissible period – 8 Years</p> <p>F. "Relative" means Spouse or Children (Dependent or Independent) or the student for whom the individual is the legal guardian.</p>
<p>Section 80EE</p>	<p>A. Deduction to 'Individual' only (Resident or Non-Resident)</p> <p>B. He has taken a loan for acquisition of residential house property.</p> <p>C. Loan is taken from Financial Institution (includes Banks/Housing finance Companies).</p> <p>D. Loan has been sanctioned during April 1, 2016 and March 31, 2017.</p> <p>E. The amount of loan sanctioned for residential house property does not exceed ₹35 lakh.</p> <p>F. The value of residential house property does not exceed ₹50 lakh.</p> <p>G. The assessee does not own any residential house property on the date of sanction of loan.</p> <p>H. Amount of Deduction: Interest payable on the above loan or ₹ 50,000, whichever is less.</p>
<p>Section 80EEA (Amended)</p>	<p>A. Deduction to 'Individual' only (Resident or Non-Resident)</p> <p>B. He has taken a loan from Financial Institution (includes Banks/Housing finance Companies) for acquisition of residential house property</p> <p>C. Loan has been sanctioned during April 1, 2019 and March 31, 2022.</p> <p>D. The SDV of residential house property does not exceed ₹45 lakh.</p> <p>E. The assessee does not own any residential house property on the date of sanction of loan.</p> <p>F. <i>The individual is not eligible to claim deduction under <u>section 80EE</u>,</i></p>



	<p>G. Amount of Deduction: Interest payable on the above loan or ₹ 1,50,000, whichever is less.</p> <p>H. The deduction of upto ₹ 1,50,000 under section 80EEA is over and above the deduction available under section 24(b) in respect of interest payable on loan borrowed for acquisition of a residential house property.</p>
<p>Section 80EEB</p>	<p>A. An Individual who has taken a loan for purchase of an electric vehicle from any financial institution,</p> <p>B. Loan has been sanctioned during the period beginning on the 1st day of April, 2019 and ending on the 31st day of March, 2023.</p> <p>C. Deduction: Interest payable, subject to a maximum of ₹ 1,50,000.</p> <p>D. Financial institution</p> <ul style="list-style-type: none"> - A banking company to which the Banking Regulation Act, 1949 applies; or - Any bank or banking institution referred to in section 51 of the Banking Regulation Act, 1949; or - Any deposit taking NBFC - A systemically important non-deposit taking NBFC i.e., a NBFC which is not accepting or holding public deposits and having total assets of not less than ₹ 500 crore as per the last audited balance sheet and is registered with the RBI. <p>E. Electric Vehicle A vehicle which is powered exclusively by an electric motor whose traction energy is supplied exclusively by traction battery installed in the vehicle. The vehicle should have electric regenerative braking system, which during braking provides for the conversion of vehicle kinetic energy into electrical energy.</p>
<p>Section 80G</p>	<p>A. Any Assessee</p> <p>B. No Monetary Limit on deductions</p> <p>C. No Deduction in respect of donation in Kind.</p> <p>D. No Deduction in respect of Cash Donations if exceeds ₹ 2,000.</p> <p>E. 100% deductions in respect of donations to Funds with words - National, State, Chief Minister etc including Clean Gunga Fund, Swachh Bharat Kosh, PM Cares Fund etc [No Limit]</p> <p>F. 50% deductions in respect of donations to [No Limit]</p> <ol style="list-style-type: none"> 1. The Jawaharlal Nehru Memorial Fund 2. Prime Minister's Drought Relief Fund 3. Indira Gandhi Memorial Trust 4. Rajiv Gandhi Foundation <p>G. 100% deduction – Donations to Govt. for Family Planning Maximum Donation = 10% of Adjusted GTI</p> <p>H. 50% deduction – Donations for charitable purpose Maximum Donation = 10% of Adjusted GTI</p>

	<p>I. <u>Adjusted GTI means</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Gross Total Income</td> <td style="text-align: right;">XXX</td> </tr> <tr> <td>Less: LTCG u/s 112 & 112A</td> <td style="text-align: right;">(XXX)</td> </tr> <tr> <td>Less: STCG u/s 111A</td> <td style="text-align: right;">(XXX)</td> </tr> <tr> <td>Less: Deduction u/s 80C to 80U except 80G</td> <td style="text-align: right;"><u>(XXX)</u></td> </tr> </table>	Gross Total Income	XXX	Less: LTCG u/s 112 & 112A	(XXX)	Less: STCG u/s 111A	(XXX)	Less: Deduction u/s 80C to 80U except 80G	<u>(XXX)</u>
Gross Total Income	XXX								
Less: LTCG u/s 112 & 112A	(XXX)								
Less: STCG u/s 111A	(XXX)								
Less: Deduction u/s 80C to 80U except 80G	<u>(XXX)</u>								
<p>Section 80GG</p>	<p>A. Any Individual</p> <p>B. Deduction in respect of Rent Paid for Residential House</p> <p>C. Quantum of deduction: <u>Least of the following</u></p> <ol style="list-style-type: none"> a) Actual rent paid minus 10% of the Adjusted GTI, or b) 25% of the Adjusted GTI, or c) ₹ 5,000 p.m. <p>D. <u>Adjusted GTI means</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Gross Total Income</td> <td style="text-align: right;">XXX</td> </tr> <tr> <td>Less: LTCG u/s 112 & 112A</td> <td style="text-align: right;">(XXX)</td> </tr> <tr> <td>Less: STCG u/s 111A</td> <td style="text-align: right;">(XXX)</td> </tr> <tr> <td>Less: Deduction u/s 80C to 80U except 80GG</td> <td style="text-align: right;"><u>(XXX)</u></td> </tr> </table> <p>E. <u>Condition:</u></p> <ol style="list-style-type: none"> 1. Not in receipt of HRA or Rent Free Accommodation 2. No House at Place of Employment: The Individual or his spouse or his minor child or an HUF of which he is a member should not own any accommodation 3. No Claim for the benefit of Self-occupied House Property under Section 23. 	Gross Total Income	XXX	Less: LTCG u/s 112 & 112A	(XXX)	Less: STCG u/s 111A	(XXX)	Less: Deduction u/s 80C to 80U except 80GG	<u>(XXX)</u>
Gross Total Income	XXX								
Less: LTCG u/s 112 & 112A	(XXX)								
Less: STCG u/s 111A	(XXX)								
Less: Deduction u/s 80C to 80U except 80GG	<u>(XXX)</u>								
<p>Section 80GGA</p>	<p>A. <u>Any assessee not having income u/h "PGBP"</u></p> <p>B. <u>No Deduction for cash donations/contributions exceeding ₹ 2,000</u></p> <p>C. <u>100% deduction of contribution made to:</u></p> <ol style="list-style-type: none"> a) Research association/University/College/Other Institution approved u/s 35(1)(ii) for scientific research; b) Research association/University/College/Other Institution approved u/s 35(1)(iii) for <u>research in social science or statistical research</u> c) Public Sector Company/Local Authority/Association or institution (approved by the National Committee) for carrying out any eligible project or scheme approved under section 35AC d) Association/Institution which undertaking any programme of rural development u/s 35CCA or which has undertaking training of persons for implementation of such programmes. e) National Rural Development Fund or National Urban Poverty Eradication Fund set up and notified under section 35CCA. 								

<p>Section 80GGB</p>	<p>A. <u>Indian company - 100% Deduction</u> B. Contribution / Donations <u>to any political party or an electoral trust</u> C. Mode – Other than Cash D. Amount of expenditure incurred on advertisement in a brochure of a political party is also covered. [No such deduction under Section 80GGC]</p>
<p>Section 80GGC</p>	<p>A. <u>Any person other than Indian company, Local Authority etc - 100% Deduction</u> B. Contribution / Donations <u>to any political party or an electoral trust</u> C. Mode – Other than Cash</p>
<p>Section 80QGB - Resident Ind. - Author - ₹ 300,000</p>	<p>A. Resident Individual - Author including Joint Author B. Deduction in respect of Royalty income [Less: Related Expenses] from Books (being a work of Literary, Artistic, Scientific Nature) C. Books – Does not include Brouchers, Guides, Journal, Diaries, Comentaries, Magazines, New papers, Pamphlets, School Text Books etc D. Maximum Deduction – ₹ 300,000 (Maximum 15% of Royalty in case royalty is based on % of Book value) E. <u>If income earned from foreign sources:</u> Deduction is allowed to the extent the income is brought into India in Convertible Foreign Exchange <u>within 6 month from end of Previous Year</u> or such extended period as allowed by RBI [Less: Related Expenses]</p>
<p>Section 80RRB - Resident Ind. - Patentee - ₹ 300,000</p>	<p>A. Resident Individual being Patentee [True & First inventor] B. Deduction in respect of Royalty income from Patents C. Maximum Deduction – ₹ 300,000 D. <u>If income earned from foreign sources:</u> Deduction is allowed to the extent the income is brought into India in Convertible Foreign Exchange <u>within 6 month from end of Previous Year</u> or such extended period as allowed by RBI [Less: Related Expenses]</p>
<p>Section 80TTA - Ind./HUF - ₹ 10,000</p>	<p>A. Individual & HUF (Other than Senior Citizen) B. <u>Maximum Deduction – ₹ 10,000 (mainly Saving Bank Account Interest)</u> C. GTI includes <u>interest on deposits (not being fixed deposits or RDs)</u> with 1. Banks, 2. Co-operative society into Banking Business or 3. Post Office. D. Not covering NBFC Interest E. No TDS on interest from Saving Bank Interes u/s 194A. [SATC Note: Exemption of ₹ 3,500 / ₹ 7,000 (under Section 10(15)) is also available in case of Post Office Saving Account Interest]</p>

<p>Section 80TTB</p>	<p>A. Senior Citizen including very senior citizen B. Maximum Deduction – ₹ 50,000 C. GTI includes <u>interest on deposits (any deposits including fixed deposits)</u> with 1. Banks, 2. Co-operative society into Banking Business or 3. Post Office. D. Not covering NBFC Interest [SATC Note: Also see Section 194A - No TDS on such FD interest upto ₹ 50,000.]</p>
<p>Section 80JJAA</p> <p>-</p> <p>30% of Additional employee cost</p> <p>-</p> <p>Assessee to which Tax Audit is applicable</p>	<p>A. Any assessee to whom Section 44AB is applicable (Any person) B. GTI includes any profits and gains derived from NEW BUSINESS C. A deduction of an amount equal to 30% of additional employee cost incurred for 3 years D. "Additional Employee Cost" means total emoluments (excluding Employer's contribution to PF etc) paid or payable to additional employees employed during the previous year: E. For first year of a new business, emoluments paid or payable to employees employed during that previous year shall be deemed to be the additional employee cost; F. NO deduction if emoluments are paid otherwise than by an account payee cheque or account payee bank draft or by use of electronic clearing system through a bank account <u>or through any other prescribed electronic mode i.e. credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.</u> G. "Additional Employee" means an employee who has been employed during the previous year <u>and whose employment has the effect of increasing the total number of employees employed by the employer as on the last day of the preceding year,</u> but does not include,- a. an employee whose total emoluments are more than ₹ 25,000 per month; or b. an employee for whom the entire contribution is paid by the Government under the Employees' Pension Scheme; or c. an employee employed for a period of less than 240 days during the previous year (150 days in case of Apparel, footwear or leather products); or d. an employee who does not participate in the recognised provident fund; H. Where an employee is employed during the previous year for a period of less than 240 days or 150 days, as the case may be, but is employed for such period, in the immediately succeeding year, he shall be deemed to have been employed in the succeeding year and the provisions of this section shall apply accordingly.</p>

Amount paid on Life Insurance Policies – Exempt [Section 10(10D)]

- 1) As per section 10(10D), any sum received on maturity of life insurance policy (including bonus) is not chargeable to tax.
- 2) **Exemption is not available in respect of:**
 - a) Any Sum received under Section 80DD
 - b) Any Sum received under a Keyman Insurance Policy
- 3) Exemption u/s 10(10D) for insurance policies *issued on or after 1.4.2012* would only be available for policies where the premium payable for any of the years during the term of the policy does not exceed 10% of the actual capital sum assured (as against 20% upto 31.03.2012)

[If the premium payable during any PY for a policy issued on or after 1.4.2012 exceeds 10% of the actual capital sum assured, the entire amount received under such policy shall be taxable.]

However, the above provision shall not apply to any sum received **on the death of a person.**

- 4) **The limit of 10% has been increased to 15 per cent for insurance (if policy is issued on or after 1.4.2013) on the life of any person who is**
 - a. a person with disability or a person with severe disability as referred to in section 80U; or
 - b. suffering from disease or ailment as specified in the rules made under section 80DDB.

Section 10(10D) is amended by Finance Act 2021 effective from AY 2021-22



- A.** Nothing contained in **this clause** (i.e. clause 10D of Section 10) shall apply with respect to any unit linked insurance policy, **issued on or after the 1st day of February, 2021**, if the amount of premium payable for any of the previous year during the term of such policy **exceeds ₹250,000**.
- B.** **Further**, if the premium is payable, by a person, for **more than one unit linked insurance policies**, issued on or after the 1st day of February, 2021, the provisions of this clause shall apply **only with respect to those unit linked insurance policies**, where the aggregate amount of premium does not **exceeds ₹250,000** in any of the previous year during the term of **any of those policies**:
- C.** **Exemptions shall continue to apply to any sum received on the death of a person.**
- D. Guidelines by Board:** If any difficulty arises in giving effect to the provisions of this clause, the Board may, with the previous approval of the Central Government, issue guidelines for the purpose of removing the difficulty and every guideline issued by the Board under this proviso shall be laid before each House of Parliament, and shall be binding on the income-tax authorities and the assessee.

IMPORTANT NOTE:

If the exemption under section 10(10D) is not available to units of ULIP, income would be taxable under section 45(1B) under the head "Capital Gain" and tax liability may be calculated as per Section 111A or 112A [Refer CG Class Notes]

<https://youtu.be/pqsX112HRJk>

Deduction to Newly Established Units in SEZs [SECTION 10AA]

No Deduction to New units from “Assessment Year 2021-22” if letter of approval is issued on or after 01.04.2020

IMPORTANT FOR EXAM:

Deduction under Section 10AA can be claimed in PY 2020-21 (AY 2021-22) even if it is First year of production

The Taxation and Other Laws (Relaxation and Amendment of Certain Provisions) Act, 2020

In case where letter of approval, required to be issued in accordance with the provisions of the SEZ Act, 2005, **has been issued on or before 31st March, 2020** and the manufacture or production of articles or things or providing services has not begun on or before 31st March, 2020 then, the date for manufacture or production of articles or things or providing services **has been extended to 31st March, 2021 or such other date after 31st March, 2021, as notified by the Central Government.**

Example: If the SEZ unit has received the necessary approval by 31.3.2020 and begins manufacture or production of articles or things or providing services on or before 31st March, 2021, then it **would be eligible for exemption under section 10AA in PY 2020-21.**

A deduction of profits and gains which are derived by an assessee being an entrepreneur **from the export of articles or things or providing any service**, shall be allowed **from the TOTAL INCOME** of the assessee.

(1) Conditions:

- i) It has begun or begins to manufacture or produce articles or things or provide **any service on or after 1.4.2005 (PY 05-06) in any SEZ but before the 01.04.2020.**
- ii) The sale proceeds from exports should be received in or brought into India, in convertible foreign exchange, ~~within a period of 6 months from the end of the Previous Year~~ or within extended period allowed by RBI.

(2) New Business / New Plant & Machinery: Same as given in Section 35AD

(3) Quantum and Period of Deduction:

- i) **For First 5 AYS : 100% of the profits derived from exports.**
- ii) **For next 5 Consecutive AYS : 50% of such profits**
- iii) **For next 5 Consecutive AYS : Least of the below two:**
 - (a) **50% of Such Profits**
 - (b) **Reserve credited to SEZ Re-Investment Allowance Reserve Account**

(4) Conditions to be satisfied for claiming deduction for further 5 years (after 10 years):

The amount credited to the Special Economic Zone Re-investment Reserve Account is utilized-

- a) for the purposes of **acquiring machinery or plant** which is first put to use before the expiry of a period of **three years** following the previous year in which the reserve was created; and
- b) until the acquisition of the machinery or plant as aforesaid, for the purposes of the business of the undertaking. **However, it should not be utilized for**
 - i. distribution by way of dividends or profits; or
 - ii. for remittance outside India as profits; or
 - iii. for the creation of any asset outside India;

(5) CONSEQUENCES OF MIS-UTILISATION / NON-UTILISATION OF RESERVE:

- (a) Mis-Utilised amount shall be deemed to be the **profits in the year in which the amount was so utilised**, or
- (b) Unutilised amount shall be deemed to be the profits **in the year immediately following the said period of three years.**

(6) **Computation of Deduction u/s 10AA:**

The profits derived from export of articles or things or services (including computer software):

Profits of the Business of the undertaking	X	$\frac{\text{Export Turnover}}{\text{Total Turnover}}$
--------------------------------------------	---	--------------------------------------------------------

Note: IMPORTANT

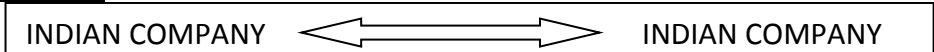
1. "Export Turnover" means the consideration received in or brought into India by the assessee in convertible foreign exchange **but does not include:**
 - a) Freight, Telecommunication Charges and Insurance **attributable to the delivery** of the articles or things outside India; or
 - b) **Expenses incurred in foreign exchange** in providing the technical services outside India.
2. Here, profits includes **profits derived from on-site development of computer software (including services for development of software) outside India** for the purpose of determining profits derived from export of computer software outside India
- 3 **CBDT has clarified that freight, telecommunication charges & insurance expenses are to be excluded both from "Export Turnover" and "Total turnover" while working out deduction admissible under Section 10AA to the extent they are attributable to the delivery of articles or things outside India.**

Similarly, **expenses incurred in foreign exchange for rendering services outside India are to be excluded from both "Export Turnover" and "Total Turnover" while computing deduction admissible u/s 10AA.**

(1) **OTHER COMMON POINTS:**

- a) **AUDIT:** The deduction under this section shall not be admissible for any assessment year unless the assessee furnishes in the prescribed form, the report of an accountant, as defined in the Explanation below sub-section (2) of section 288 **before the specified date referred to in section 44AB (i.e., one month prior to the due date for filing return of income),** certifying that the deduction has been correctly claimed in accordance with the provisions of this section.
- b) **INTER-UNIT TRANSFER:** Where any goods or services of eligible business are transferred to any other business (or vice versa) otherwise than at Market Value on date of transfer, **then the profits and gains of the eligible business shall be computed as if the transfer was made at market value.**
- c) **NO DOUBLE OR EXCESS DEDUCTION:** The deductions claimed and allowed under this section **shall not exceed the profits and gains of the eligible business.** Further, profits and gains allowed as deduction under this section will not be considered for deduction under any other provisions of the Act.

d) **AMALGAMATION/DEMERGER:**



In the case of any amalgamation or demerger, **by virtue of which the Indian company carrying on the eligible business is transferred to another Indian company:**

- (i) No deduction will be available to the amalgamating company/demerged company, in the year of amalgamation/demerger.
- (ii) **The deduction will be available to the amalgamated/resulting company for unexpired period.**
- e) Where a deduction under this section is claimed and allowed in relation to any specified business eligible for investment-linked deduction under section 35AD, **no deduction shall be allowed under section 35AD in relation to such specified business for the same or any other assessment year.**

No deduction u/s 10AA & u/s 80-IA to 80-RRB, if not claimed in the return of income

Where the assessee **fails to make a claim in his return of income** for any deduction u/s 10AA or u/s 80-IA to 80-RRB, no deduction shall be allowed.

Section 10AA is a deduction and not an exemption. Therefore, losses and depreciation of the undertaking to which Section 10AA applies shall be carried forward normally.

In case of LIBERTY India, SC held that EXPORT INCENTIVE like

- (a) Cash Compensatory Support
- (b) Duty Drawback
- (c) Profit on sale of import entitlement licenses
- (d) Duty Exemption Pass Book

Shall NOT form part of profit of the eligible undertaking for the purpose of Section 10AA. No deduction is available on these income.

SURAJ AGRAWAL TAX CLASS

INCOMES NOT INCLUDED IN TOTAL INCOME [SECTION 10]

(Strictly as per CA Intermediate Syllabus)

Exemption under section 10 vis-a-vis Deduction under Chapter VI-A

EXEMPTIONS UNDER SECTION 10

The incomes which are exempt under section 10 **will not be included** for computing total income.

DEDUCTIONS UNDER CHAPTER VI-A

Incomes from which deductions are allowable under Chapter VI-A will **first be included** in the gross total income (GTI) and **then the deductions will be allowed** from GTI.

VARIOUS CLAUSES OF SECTION 10

- **Agricultural Income from Land Situated in India [Section 10(1)]**
- **Amounts received by a member from the income of the HUF [Section 10(2)]**
- **Share Profit of a partner from partnership firm or LLP [Section 10(2A)]**
*Circular No 8/2014: The CBDT has clarified that the **entire profit** credited to the Partner's accounts in the firm would be exempt from tax in the hands of such partners, **even if the income chargeable to tax becomes NIL in the hands of the firm on account of any exemption or deduction.***
- **[2 Marks] Exemption to non-residents and person resident outside India from Interest credited in Non-resident (External) Account in India [Sec 10(4)(ii)]**
 As per section 10(4)(ii), in the case of an individual, any income by way of interest on moneys standing to his credit in a **Non-resident (External) Account (NRE A/c)** in **any bank in India** in accordance Foreign Exchange Management Act, 1999 (FEMA, 1999), and the rules made thereunder, would be exempt, **provided such individual-**
 - ✓ is a **person resident outside India**, as defined in FEMA, 1999, or
 - ✓ is a person who has been **permitted by the Reserve Bank of India** to maintain such account.

The benefit of exemption under section 10(4)(ii) will be available **to joint account holders also**, subject to fulfillment of other conditions contained in the section by each of the individual joint account holders.
- **Remuneration received by individuals, who are not citizens of India [Section 10(6)]**
 Individual assessee **who are not citizens of India** are entitled to certain exemptions:
 - i. **Remuneration received by officials of Embassies etc. of Foreign States [Section 10(6)(ii)]**
 The remuneration received by a person for services as an official of an embassy, high commission, legation, commission, consulate or the trade representation of a foreign State or as a member of the staff of any of these officials is exempt.

Conditions:

 - (a) The remuneration received by our corresponding Government officials or members of the staff resident in such foreign countries should be exempt.

(b) The above-mentioned members of the staff should be the subjects of the respective countries represented and should not be engaged in any other business or profession or employment in India.

ii. **Remuneration received for services rendered in India as an employee of foreign enterprise [Section 10(6)(vi)]**

Remuneration received by a foreign national as an employee of a foreign enterprise for service rendered by him during his stay in India is also exempt from tax.

Conditions:

- (a) The foreign enterprise is not engaged in any business or trade;
- (b) The employee’s stay in India **does not exceed 90 days** during the previous year;
- (c) The remuneration is not liable to be deducted from the employer’s income chargeable to tax under the Act.

iii. **Salary received by a non-citizen non-resident for services rendered in connection with employment on foreign ship [Section 10(6)(viii)]**

Salary income received by or due to a non-citizen of India who is also non-resident for services rendered in connection with his employment on a foreign ship is exempt where his total stay in India **does not exceed 90 days** during the previous year.

iv. **Remuneration received by Foreign Government employees during their stay in India for specified training [Section 10(6)(xi)]**

Any remuneration received by employees of foreign Government from their respective Government during their stay in India, is exempt from tax, if such remuneration is received in connection with their training in any establishment or office of or in any undertaking owned by –

- a. the Government; or
- b. any company wholly owned by the Central or any State Government(s) or jointly by the Central and one or more State Governments; or
- c. any company which is subsidiary of a company referred to in (b) above; or
- d. any statutory corporation; or
- e. any society registered under the Societies Registration Act, 1860 or any other similar law, which is wholly financed by the Central Government or any State Government(s) or jointly by the Central and one or more State Governments.

➤ Any income arising to such foreign company, as the Central Government may, by notification in the Official Gazette, specify in this behalf, **by way of royalty or fees for technical services** received in pursuance of an agreement entered into with that **Government for providing services in or outside India in projects connected with security of India [Section 10(6C)]**

➤ **Royalty income or fees for technical services received from National Technical Research Organisation (NTRO) [Section 10(6D)]**
Income arising to non-corporate non-residents and foreign companies, by way of royalty from or fees from technical services rendered in or outside India to, **the National Technical Research Organisation (NTRO) is exempt**

➤ **Allowances payable outside India [Section 10(7)]**
[Refer ‘Residential Status’ Chapter]

➤ **[2 Marks] Payments to Bhopal Gas Victims [Section 10(10BB)]**
Any payment made to a person under Bhopal Gas Leak Disaster (Processing of Claims) Act, 1985 and any scheme framed thereunder **will be fully exempt.**

However, payments made to any assessee in connection with Bhopal Gas Leak Disaster to the extent **he has been allowed a deduction under the Act** on account of any loss or damage caused to him by such disaster **will not be exempted. (SATC Note: No double benefit)**

- **Exemption of compensation received on account of disaster from CG/SG or local authority to Individual or legal heirs [Sec 10(10BC)]**
 - (i) This clause exempts any amount received or receivable as compensation **by an individual or his legal heir** on account of any disaster.
 - (ii) Such compensation should be granted by the Central Government or a State Government or a local authority.
 - (iii) However, exemption **would not be available** in respect of compensation for alleviating any damage or loss, which has already been allowed as deduction under the Act.

- **Receipts from LIC [Section 10(10D)] - [Refer ‘Deduction’ Chapter]**

- **Any Payment from SPF/PPF [Section 10(11)] - [Refer ‘Salary’ Chapter]**

- **Any Payment from Sukanya Samriddhi Account [Section 10(11A)]**
(Also Refer Deduction under Section 80C class)

- **Any Payment from RPF [Section 10(12)] - [Refer ‘Salary’ Chapter]**

- **[2 Marks]** Any payment from the National Pension System Trust to an assessee on closure of his account or on his opting out of the pension scheme referred to in section 80CCD, **to the extent it does not exceed 60% of the total amount payable to him** at the time of such closure or his opting out of the scheme **[Section 10(12A)]**

- **[2 Marks]** Any payment from the National Pension System Trust **to an employee** under the pension scheme referred to in section 80CCD, **on partial withdrawal** made out of his account in accordance with the terms and conditions, specified under the Pension Fund Regulatory and Development Authority Act, 2013 and the regulations made thereunder, **to the extent it does not exceed 25% of the amount of contributions made by him [Section 10(12B)]**

- **Any Payment from Approved Superannuation Fund [Section 10(13)]**
[Refer ‘Salary’ Chapter]

- **Interest income from Notified securities etc. [Section 10(15)]**
[Refer ‘Income from Other Sources’ Chapter for long list]

- **Education Scholarship - Exempt [Section 10(16)]**
Scholarships granted to meet the cost of education is fully exempt.

- **Daily Allowance & Constituency Allowances to MP/MLA - Exempt [Section 10(17)]**

- **Government Rewards / Awards [Sec. 10(17A)] – 2 MARKS**
Any award instituted in the public interest by the Central/State Government or by any other body approved by the Central Government and a reward by Central/State Government for such purposes as may be approved by the Central Government in public interest, will enjoy exemption under this clause.

- **Pension received by recipient of gallantry awards [Section 10(18)]**
[Refer ‘Income from Other Sources’ Chapter]

- **Income of local authorities [Section 10(20)]**
Following Income of a local authority is Exempt:
 - a. Income Chargeable under the head Income from HP, CGs or IOS
 - b. Income from supply of commodities (other than water or electricity) or services, within its own jurisdiction.
 - c. Income from supply of water services or electricity within or outside its Jurisdiction.

➤ **Income of Mutual Fund [Section 10(23D)] is exempt from tax.**

➤ **Income of member of a Scheduled Tribe [Section 10(26)]**

A member of a Scheduled Tribe residing in -

- i. any area specified in the Constitution i.e., The North Cachar Hills District, The Karbi Anglong District, The Bodoland Territorial Areas District, Khasi Hills District, Jaintia Hills District or The Garo Hills District or
- ii. in the States of **Manipur, Tripura, Arunachal Pradesh, Mizoram and Nagaland**, or
- iii. in **Ladakh**

is exempt from tax on his income arising or accruing-

- a. from any source in the areas or States aforesaid.
- b. **by way of dividend or interest on securities.**

➤ **Exemption of income of a Sikkimese Individual [Section 10(26AAA)] – 3 MARKS**

The following income, which accrues or arises to a Sikkimese individual, would be exempt from income-tax-

- a. income from any source in the State of Sikkim; or
- b. **income by way of dividend or interest on securities (Not necessary from Sikkim).**

Imp: However, this exemption will not be available to a Sikkimese woman who, on or after 1st April, 2008, marries a non-Sikkimese individual.

➤ **Tea board subsidy [Section 10(30)]**

The amount of any subsidy received by any assessee engaged **in the business of growing and manufacturing tea** in India **through or from the Tea Board** will be wholly exempt from tax.

➤ **Other subsidies [Section 10(31)]**

Amount of any **subsidy received by an assessee engaged in the business of growing and manufacturing** rubber, coffee, cardamom or other specified commodity in India, as notified by the Central Government, will be wholly exempt from tax.

➤ **Exemption in respect of clubbed income of Minor [Section 10(32)]**

➤ **Exemption of capital gain on transfer of a unit of Unit Scheme, 1964 (US 64) [Section 10(33)]**

Any income arising from the transfer of a capital asset, being a unit of the Unit Scheme, 1964 (Units of US 1964) referred to in Schedule I to the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 (58 of 2002) and where the **transfer of such asset takes place on or after the 1st day of April, 2002**

➤ **Any income arising to an assessee, being a shareholder, on account of buy back of shares by the company as referred to in section 115QA [Section 10(34A)]**

[Refer ‘Capital Gains’ Chapter]

➤ **Income received in a transaction of reverse mortgage [Sec 10(43)]**

[Refer ‘Capital Gains’ Chapter]

➤ **Income received by any person on behalf of NPS Trust [Sec 10(44)]**

Any income received by any person for, or on behalf of, the New Pension System Trust established under the provisions of the Indian Trusts Act, 1882.

[Detailed discussion about NPS Trust – Refer ‘Deduction under Section 80CCD’ Class]

CLUBBING OF INCOME

Section	Important Provisions
60	If any person transfers the income from any asset without transferring the asset itself, such income is to be included in the total income of the transferor
61	<ol style="list-style-type: none"> 1. All income arising to any person by virtue of a revocable transfer of assets is to be included in the total income of the transferor 2. The transfer is deemed to be revocable if whole or any part of income or assets is re-transferred to the transferor or transferor gets the right over such income or assets. 3. Exception: <ol style="list-style-type: none"> (a) If there is a transfer of asset which is not revocable during the life time of the transferee, the income from the transferred asset is not includible in the total income of the transferor (b) If there is transfer before 01.04.1961 & transfer is for a period exceeding 6 Years.
64(1)(ii)	<p>Remuneration of spouse from a concern in which another spouse has substantial interest</p> <ol style="list-style-type: none"> 1. Any remuneration derived by a spouse from a concern in which the <i>other spouse has a substantial interest</i>, shall be clubbed in the hands of the <i>spouse who has a substantial interest in that concern</i>. 2. No clubbing if remuneration is due to technical or professional qualifications of spouse. 3. If the husband and wife both have substantial interest in the concern and both are in receipt of remuneration from the concern, then the remuneration of <i>both</i> shall be clubbed in the hands of <i>that spouse whose total income, before including such remuneration, is greater</i>. 4. Meaning of substantial interest: Ownership of atleast 20% equity shares / 20% of the profits of such concern at any time during the PY is held by individual along with his relatives. <i>["Relative" means the spouse, brother or sister or any lineal ascendant or descendant of the individual]</i>
64(1)(iv)	<p>Income from assets transferred to the spouse for without adequate consideration</p> <p>If an individual transfers (otherwise than as a consideration to live apart) directly or indirectly any asset other than house property to his/her spouse, the income from such an asset shall be included in the total income of the transferor.</p>
64(1)(vi)	<p>Income from assets transferred to son's wife for without adequate consideration</p> <p>Where an asset is transferred, directly or indirectly, by an individual to his or her son's wife without adequate consideration, the income from such asset is to be included in the total income of the transferor.</p>
	<p>Common points:</p> <ol style="list-style-type: none"> 1) The relationship must exist on the date of transfer as well as at the time of accrual of income during the P.Y. 2) Clubbing is not applicable on any income which arises on accretion of the transferred asset. [Say bonus shares allotted after transfer of shares] 3) Where the transferred assets is invested by the transferee in any business by way of capital contribution then, the following proportionate income shall be clubbed with the income of the individual: <div style="text-align: center; margin-top: 10px;"> $\frac{\text{Investment made by transferee out of transferred asset as on the first day of PY}}{\text{Total Investment in the business as on the first day of Previous Year}} \times \text{Total income from such business}$ </div>

64(1)(vii)	Where any asset is transferred by an individual, without adequate consideration, to any person for the benefit of Spouse , then <i>any income arising from such transferred asset</i> , is liable to be taxed in the hands of the transferor, to the extent such income is used for the immediate / deferred benefit of such spouse.
64(1)(viii)	Where any asset is transferred by an individual, without adequate consideration, to any person for the benefit of Son's wife , then <i>any income arising from such transferred asset</i> , is liable to be taxed in the hands of the transferor, to the extent such income is used for the immediate / deferred benefit of the Son's wife
64(1A)	<p>Clubbing of income of a minor child</p> <p>The income of the minor child [including minor married daughter] is liable to be taxed in the hands of that parent, whose Total Income, excluding income of minor child, is Greater.</p> <p>Exception: No clubbing shall apply in case of following incomes:</p> <ol style="list-style-type: none"> Where a minor child is suffering from disability of the nature specified in Sec. 80U. Where such income as arises / accrues to the minor child on account of any manual work done by him or activity invoking application or his skill, talent or specialized knowledge and experience. <p>1. Exemption u/s Section 10(32): Maximum exemption of ₹ 1,500 per annum per child. Exemption will not be available in case Section 115BAC is opted by respective parent.</p> <ol style="list-style-type: none"> Marriage of his parents does not subsist : Clubbing to that parent who maintains the minor child If the income by way of manual work or activity involving application or skill, etc. which was not clubbed, <i>in invested, and income is earned thereon</i>, such investment income shall be clubbed. If the minor child becomes major during the P.Y., <u>then the incomes till the date he remained minor</u> in that P.Y. shall be clubbed with the parent.
64(2)	<p>Income from self acquired property converted to joint family property for inadequate consideration</p> <ol style="list-style-type: none"> Where an individual, who is a member of the HUF converts, his separate property as the property of the HUF otherwise than for adequate consideration, <u>then the income from such property shall continue to be included in the total income of the individual.</u> Implication in the case of subsequent partition: Where the above converted property has been distributed on partition among members of the family, the income derived from such, converted property as is received by the spouse, after partition, shall be deemed to arise to the spouse <u>from assets transferred indirectly by the individual to the spouse and the income from the portion, received by the spouse, shall be clubbed in the hands of the transferor.</u>
65	Liability of transferee: The transferee is always liable to pay that portion of tax levied on the transferor which is attributable to the income so clubbed.
Other Common Points	<ol style="list-style-type: none"> Loan is not a transfer, so clubbing will not apply on Loan amount (even if it given interest free to spouse, son's wife etc.) The clubbing provisions of section 64(1)(iv) is not applicable if the property is transferred by a Karta of HUF, gifting the coparcenary property to his wife. Income accruing or arising from transferred assets only will be clubbed. Any income earned out of such income [accreted assets] should not be clubbed [Dividend/CG from Bonus Shares allotted to transferee] The clubbing shall continue to apply even if the transferee has converted the transferred assets to some other form If property has been transferred to spouse or son's wife directly or indirectly for a consideration which is inadequate, then only the part of income which is related to transfer of inadequate, shall be clubbed

SET OFF, CARRY FORWARD OF LOSSES

Section	Particulars
70	Inter Source - Set off of loss from one source against income from another source under the same head of income
71	Inter Head - Set off of loss from one head against income from another Head
71B	Carry forward and set off of loss from house property
72	Carry forward and set off of Business Losses [Non-Speculative]
73	Losses in Speculation Business
73A	Carry forward and set off of Losses by Specified Business [u/s 35AD]
74	Losses under the head "Capital gains"
74A	Losses from certain specified sources falling under the head "income from other sources" [Owning & Maintaining Race Horses]
80	Submission of Return for Losses [Read with Section 139(3)]

Set –Off and Carry forward of losses

Nature of income	Set – Off			Carry Forward	Set – Off
	Same Source under same head	Inter – Source under same head	Inter – Head	For Assessment Year	From
Salary	N.A				
House property	✓	✓	✓ Maximum Limit ₹ 2 Lakhs	8 Years	Same Head
PGBP	Non – Speculation ✓	✓	✓ Except from Salary	8 Years	Same Head
	Speculation ✓	✗	✗	4 Years	<u>Same Source</u>
	Specified Business u/s 35AD ✓	✗	✗	Indefinite	<u>Same Source</u>
	Unabsorbed Depreciation Cap Exp on Sci. Research Cap Exp on F. Plan by Co ✓	✓	✓	✓ Except from Salary	Indefinite
CGs	Short Term ✓	✓	✗	8 Years	LTCG/STCG
	Long Term ✓	✗	✗	8 Years	Only LTCG
OS	Owing & Maintenance race horses ✓	✗	✗	4 Years	<u>Same Source</u>
	Winning from Lottery etc. ✗	✗	✗		

Interest etc.	✓	✓	✓	Carry forward of loss under the head IOS is not permissible.
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NOTE:

- i) **Loss u/h HP can be setoff with other Head's income upto ₹ 200,000**
- ii) **Speculation business loss** can be set off only against speculation business income. However, losses from other business can be adjusted against profits from speculation business.
- iii) **Loss from the activity of trading in derivatives, however, is not to be treated as speculative loss.**
- iv) **Trading in agricultural commodity derivatives is not regarded as 'speculative transaction'.**
- v) **Loss under the head "PGBP"** cannot be set off against income under the head "Salaries".
- vi) **Long term Capital Loss** can be set off against Long term Capital Gains. Thus, short-term capital loss is allowed to be set off against both short-term capital gain and long-term capital gain.
- vii) **Loss under the head 'Capital Gains'** cannot be set-off against income under any other head.
- viii) **Loss from activity of owning and maintaining race-horses** can be set off only against income from owning and maintaining race- horses.
- ix) **Loss from a Specified Business [Referred to in Section 35AD]** can be set off against profits and gains, if any, of any other specified business **whether eligible or not. [14 Business]**
- x) **Loss from a source, the income from which is exempt,** cannot be set off against any income. **[Say 10(1)]**
- xi) **Loss from lottery, card games etc.** cannot be set off against any income.
- xii) **A loss cannot be set off against winnings from lotteries,** crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature.
- xiii) **In case the assessee is lower income group, It's prefer to set off losses with LTCG (u/s 112) first as the same is taxed @ 20% and also deductions under chapter VIA against such loss is not available.**

Important Notes:

A. Where the losses incurred are not set – off against the income of the immediately succeeding year, such losses cannot be set – off at a later date. However, the benefit to be denied is limited to the loss which could be set – off and not the entire loss which is being carried forward.

B. Order of Set-off:

Section 70 [Inter Source]; Section 71[Inter Head]; Adjustment of B/f Losses and then finally Carry forward of losses

C. Section 80:

Following losses cannot be carried forward if Return of Loss is not filled within Due Date u/s 139(1):

1. Loss from Non-Speculative Business under Section 72
2. Loss from Speculative Business under Section 73
3. **Loss from Specified Business under Section 73A**
4. Capital Loss under Section 74
5. Loss from the activity of owning and maintaining race horses under Section 74A.

[Note: Non-Filling of Return of Loss will not affect the Inter Source Adjustment u/s 70 or Inter-head Adjustment u/s 71 or adjustment of brought forward losses of previous year with current year Income]

Students are requested to read/revise Section 115BAC carefully as many restrictions are provided in that section regarding setoff of losses including HP Loss & unabsorbed depreciation. It is already covered in Section 115BAC.

Return of Income

Section	Particulars
139 (1)	<p>Return of Income – Mandatory filing</p> <ul style="list-style-type: none"> ➤ Company & Firm - Always ➤ A person other than company or firm - if it is <u>Total Income</u> [without giving effect to the provisions of Chapter VI-A or Section 54/54B/54D/54EC/54F/54G/54GA/54GB] exceeds the maximum amount which is not chargeable to income tax (i.e. ₹ 250,000 / ₹ 300,000 / ₹ 500,000 as the case may be) <p>Compulsory filing of income tax return in relation to assets located outside India</p> <p>Any resident person who is not required to furnish a return under section 139(1) and who during the PY has:</p> <ol style="list-style-type: none"> a) Any asset (including any financial interest in any entity) located outside India or b) Signing authority in any account located outside India or c) is a beneficiary of any asset (including financial interest in any entity) located outside India <p>Shall furnish, on or before the due date, a return in respect of his income or loss.</p> <p>Any person other than a company or a firm, who is not required to furnish a return under section 139(1), is required to file income-tax return in the prescribed form and manner on or before the due date if, during the previous year, such person –</p> <ol style="list-style-type: none"> a) has deposited an amount or aggregate of the amounts exceeding ₹ 1 crore in one or more <u>current accounts maintained with a banking company or a co-operative bank</u>; or b) has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 2 lakh for himself or any other person for <u>travel to a foreign country</u>; or c) has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 1 lakh towards <u>consumption of electricity</u>; or d) fulfils such other prescribed conditions. <p>‘DUE DATE’ – SECTION 139(1) [4 Marks]</p> <ol style="list-style-type: none"> a) 30th November of the AY, where the assessee is required to furnish a report u/s 92E [Transfer Pricing Report for International & Specified Domestic Transactions] <p>W.e.f. AY 2021-22; Assessee includes</p> <ul style="list-style-type: none"> ➤ Partners of the firm, if firm is required to furnish such report ➤ The spouse of such partners if the provisions of Section 5A applies to such spouse.

[Amended by Finance Act 2021, w.e.f. AY 2021-22]

	<p>b) 31st October of the AY, where the assessee [not covered in point 'a'] is:</p> <p>(i) A company; or</p> <p>(ii) A person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force; or</p> <p>(iii) A any partner (working or non-working) of a firm whose accounts are required to be audited under the Income-tax Act, 1961 or any other law for the time being in force or the spouse of such partner if the provisions of Section 5A applies to such spouse.</p> <p>[Amended by Finance Act 2021, w.e.f. AY 2021-22]</p> <p>c) 31st July of the AY, in the case of any other assessee.</p> <p>Consequences for default in Furnishing Income tax Return:</p> <p>a) Interest u/s 234A & Late Fee u/s 234F</p> <p>b) Certain Losses can not be carried forwarded.</p> <p>c) Income based deduction [80-IA to 80RRB] will not be available.</p>
139 (3)	<p>Return of Loss</p> <p>File within the time specified in section 139(1). If return of loss is not filed then following loss cannot be carried forward</p> <p>(i) Business Loss (including speculative loss & loss from Specified Business)</p> <p>(ii) Capital Loss</p> <p>(iii) Owing and maintenance race horses loss</p>
139 (4)	<p>Belated Return</p> <p>By 3 months prior to the end of relevant A.Y. or before completion of assessment (whichever is earlier)</p>
139(5)	<p>Revised Return of income [Original return filed u/s 139(1) or 139(4)]</p> <p>By 3 months prior to the end of relevant A.Y. or before completion of assessment (whichever is earlier)</p> <p>Belated return can now be revised.</p>
139A	<p>Permanent Account Number</p> <p>Mandatory:</p> <p>(i) Total Income greater than Basic Exemption Limit</p> <p>(ii) Gross Turnover/Receipts greater than ₹ 5,00,000</p> <p>(iii) Charitable Trust u/s 139 (4A)</p> <p>(iv) Every person, being a resident, other than an individual, which enters into a financial transaction of an amount aggregating to ₹ 2,50,000 or more in a financial year.</p> <p>(v) Every person who is the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of the person mentioned in (c) above or any person competent to act on behalf of such person.</p>

		<p>Certain Transactions where PAN is Mandatory:</p> <p>(a) Sale or purchase of any <u>immovable property</u> valued at amount exceeding ₹ 10,00,000;</p> <p>(b) Sale or purchase of <u>motor vehicle</u> (other than two wheeled motor vehicle) which requires registration;</p> <p>(c) A <u>Time Deposit</u> exceeding ₹ 50,000 or aggregating to more than ₹ 5 lakh during a financial year;</p> <p>(d) Bill payments to <u>hotels and restaurants</u> exceeding ₹ 50,000 at any one time;</p> <p>(e) <u>Cash deposit</u> aggregating ₹ 50,000 or more with a banking company during any one day;</p> <p>(f) Cash payment in excess of ₹ 50,000 in connection with <u>travel to any foreign country</u> at any one time.</p> <p>(g) Making an application to any bank or banking institution or company or any institution <u>for issue of a credit card / Debit Card</u></p> <p>etc</p>
<p>139(9)</p>	<p>Defective Return (Now, if tax is not paid before filing ROI, Return will not be considered as defective)</p>	<p>1. Intimation of the defect to the assessee and an opportunity to rectify the defect within a period of 15 days from the date of such intimation.</p> <p>2. Extension of the time period beyond 15 days, on an application made by the assessee.</p> <p>3. If the defect is not rectified within the period of 15 days or such further extended period, then the return would be treated as an invalid return.</p>
<p>140</p>	<p>Verification of Return</p>	<p>Individual HUF Company Company in liquidation Company under insolvency proceedings Non-Resident Company Firm LLP Local Authority Political Party AOP</p> <p>– Himself; – KARTA / Adult Member; – MD / Any Director; or any other person as may be prescribed for this purpose. – Liquidator – Insolvency Professional – A Person holding Valid Power of Attorney; – Managing Partner /Adult Partner; – Designated Partner / Any Partner; or any other person as may be prescribed for this purpose. – Principle Officer, – CEO, – Principal Officer</p>

Inter-changeability of PAN with the Aadhaar number

Every person who is required to furnish or intimate or quote his PAN may furnish or intimate or quote his Aadhaar Number in lieu of the PAN, if he

- has not been allotted a PAN but possesses the Aadhaar number
- has been allotted a PAN and has intimated his Aadhaar number to

prescribed authority in accordance with the requirement contained in section 139AA.

Fee for Default in furnishing Return of Income [SECTION 234F]

Where a person, who is required to furnish a return of income under section 139, fails to do so within the prescribed time limit under section 139(1), he shall pay, by way of fee, **a sum of ₹ 5,000.**

a. ₹ 5,000 if the return is furnished on or before the 31st December of AY;

b. ₹ 10,000 in any other case

However, if the total income of the person does not exceed ₹ 500,000, the fees payable shall not exceed ₹ 1,000

[Amended by Finance Act 2021, w.e.f. AY 2021-22]

FEE FOR DEFAULT RELATING TO INTIMATION OF AADHAR NUMBER [SECTION 234H]

[2 Marks]

Where a person, who is required to intimate his Aadhaar Number under section 139AA(2), fails to do so on or before the notified date (**now 31st March 2022**), he shall be liable to pay such fee, as may be prescribed, at the time of making intimation under section 139AA(2) after the said date. **However, such fee shall not exceed ₹ 1,000.**

[New Section is inserted by Finance Act 2021, effective from AY 2021-22]

Section 139AA - Quoting of Aadhaar number

1. Every person who is eligible to obtain Aadhaar number shall, on or after the 1st day of July, 2017, quote Aadhaar number—
 - (i) in the application form for allotment of permanent account number;
 - (ii) in the return of income:
2. Where the person does not possess the Aadhaar Number, the Enrolment ID of Aadhaar application form issued to him at the time of enrolment shall be quoted in the application for permanent account number or, as the case may be, in the return of income furnished by him.
3. Every person who has been allotted permanent account number as on the 1st day of July, 2017, and who is eligible to obtain Aadhaar number, shall intimate his Aadhaar number to such authority in such form and manner as may be prescribed, on or before a date to be notified by the Central Government in the Official Gazette:

Provided that in case of failure to intimate the Aadhaar number, the permanent account number allotted to the person shall be **made inoperative after the date so notified in such manner as may be prescribed (after 31.03.2022).**
4. The provisions of this section shall not apply to such person or class or classes of persons or any State or part of any State, as may be notified by the Central Government in this behalf, in the Official Gazette.

[4 Marks] Accordingly, the Central Government has, notified that the provisions of section 139AA relating to quoting of Aadhaar Number would not apply to an individual who does not possess the Aadhaar number or Enrolment ID and is:

- a. residing in the States of Assam, Jammu & Kashmir and Meghalaya;
- b. a non-resident as per Income-tax Act, 1961;
- c. of the age of 80 years or more at any time during the previous year;
- d. not a citizen of India

TAX RETURN PREPARERS SCHEME [SECTION 139B]

Particulars	Contents
Applicability of the scheme	The scheme is applicable to all eligible persons.
Eligible person	Any person being an individual or a Hindu undivided family
Tax Return Preparer	<p>Any individual who has been issued a "Tax Return Preparer Certificate" and a "unique identification number" under this Scheme by the Partner Organisation to carry on the profession of preparing the returns of income in accordance with the Scheme.</p> <p>However, the following person are not entitled to act as TRP:</p> <ul style="list-style-type: none"> (i) any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings. (ii) any legal practitioner who is entitled to practice in any civil court in India. (iii) A chartered accountant.
Educational qualification	An Individual, who holds a bachelor degree from a recognised Indian University or institution, or has passed the intermediate level examination conducted by the Institute of Chartered Accountants of India or the Institute of Company Secretaries of India or the Institute of Cost Accountants of India, shall be eligible to act as TRP.
Preparation of and Furnishing the Return of Income by the TRP	<p>An eligible person may, at his option, furnish his return of income u/s 139 for any assessment year after getting it prepared through a TRP:</p> <p>However, the following eligible persons (an individual or a HUF) cannot furnish a return of income for an assessment year through a TRP:</p> <ul style="list-style-type: none"> (i) who is carrying out business or profession during the previous year and accounts of the business or profession for that previous year are required to be audited under section 44AB or under any other law for the time being in force; or (ii) who is not a resident in India during the previous year. <p>An eligible person cannot furnish a revised return of income for any assessment year through a TRP unless he has furnished the original return of income for that assessment year through such or any other TRP.</p> <p>Further, a return of income which is required to be furnished in response to a notice under section 142(1)(i) or under section 148 or under section 153A cannot be prepared or furnished through a TRP.</p>

SELF-ASSESSMENT [SECTION 140A]

Payment of tax: interest and fee before furnishing return of income

Where any tax is payable on the basis of any return required to be furnished under, inter alia, section 139, after taking into account -

- a. the amount of tax, already paid, under any provision of the Income-tax Act, 1961
- b. the tax deducted or collected at source
- c. **any relief of tax claimed under section 89**
- d. **any tax or interest payable as per the provisions of section 191(2) [TDS Class]**

the assessee shall be liable to pay such tax together with interest and fees payable under any provision of this Act for any delay in furnishing the return or any default or delay in payment of advance tax before furnishing the return. **The return shall be accompanied by the proof of payment of such tax, interest and fee.**

Order of adjustment of amount paid by the assessee

Where the amount paid by the assessee under section 140A(1) falls short of the aggregate of the tax, interest and fees as aforesaid, the amount so paid shall first be adjusted towards the fees payable and thereafter towards interest and the balance, if any, shall be adjusted towards the tax payable.

Interest under section 234A

For the above purpose, interest payable under section 234A shall be computed on the **amount of tax on the total income as declared in the return, as reduced by the amount of-**

- a. advance tax paid, if any;
- b. any tax deducted or collected at source;
- c. **any relief of tax claimed under section 89**

Interest under section 234E

Interest payable u/s 234B shall be computed on the assessed tax or on the amount by which the advance tax paid falls short of the assessed tax.

For this purpose "assessed tax" means the **tax on total income declared in the return as reduced by the amount of TDS / TCS / Relief u/s 89** on any income which forms part of the total income;

Consequence of failure to pay tax, interest or fee

If any assessee fails to pay the whole or any part of such of tax or interest or fees, he shall be deemed to be an assessee in default in respect of such tax or interest or fees remaining unpaid and all the provisions of this Act shall apply accordingly.

ADVANCE TAX [SECTIONS 207 TO 219]

- (1) Under section 208, obligation to pay advance tax arises in every case where the advance tax payable is **₹ 10,000 or more.**
- (2) ***Provision of Advance Tax is now applicable on business income covered u/s 44AD & professional income covered u/s 44ADA.***
- (3) ***Provision of Advance Tax is not applicable to a Resident Senior Citizen, not having any income chargeable u/h "PGBP"***
- (4) **Amount of Advance Tax Payable is:**

Tax (including cess) on Total Income	XXX
Less: Tax Deducted at Source / TCS / Relief u/s 89 / AMT Credit etc	(XXX)
Amount of Tax Payable	<u>XXX</u>

Section 211 – Advance tax is payable in the following installments

For Eligible Assessee in respect of income referred in Section 44AD or in Section 44ADA

Advance tax is payable to the extent of the whole amount of such advance tax during each financial year on or before the 15th March – 100% by 15 March (Only 1 Installment)

Assessee other than above (Now 4 Installments for all)

Due date of installment	Instalment Amount
On or before 15 th June	<u>15% of the</u> advance tax liability
On or before 15 th Sept	<u>45%</u> of the Advance tax liability <i>as reduced</i> by the amount, of any, paid in earlier installment.
On or before 15 th Dec	<u>75%</u> of the advance tax liability <i>as reduced</i> by the amount, if any, paid in earlier installments.
On or before 15 th Mar	<u>100%</u> of the advance tax liability <i>as reduced</i> by the amount, if any, paid in earlier installments.

Interest for non-payment or short-payment of advance tax [Section 234B]

- (1) Interest under section 234B is attracted for non-payment of advance tax or payment of advance tax of an amount **less than 90% of assessed tax.**
- (2) The interest liability would be **1% per month or part of the month** starting from 1st April following the financial year and ending on the date of payment of Income Tax.
- (3) Such interest is calculated on the amount of **difference between the assessed tax and the advance tax paid.**
- (4) **Assessed tax** is the **tax calculated on total income less TDS/TCS/Relief u/s 89/AMT credit etc**

1% p.m. of (Total Tax – TDS – Advance Tax paid) from 1st April 2022 till the payment of Tax.

Interest payable for deferment of advance tax [Section 234C]

- (1) Interest under section 234C is attracted for deferment of advance tax beyond the due dates.
- (2) The interest liability would be 1% per month, for a period of 3 months, for every deferment.
- (3) However, for the installment due on 15th March, the interest liability under this section would be 1% for one month. [In case of Business covered in Section 44AD / 44ADA, 1% Interest is applicable]
- (4) The interest is to be calculated on the difference between the amount arrived at by applying the specified percentage of Tax due on Returned Income [Tax less TDS/TCS/Relief u/s 89/AMT Credit etc] and the actual amount paid by the due date
- (5) If advance tax paid in case of **1st & 2nd installment is 12% or more and 36% or more respectively**, then no interest shall be payable by any assessee.

Payment of advance tax in case of capital gains/casual income [Proviso to section 234C] – Theory Question – 4 marks

The provisions of Section 234C shall not apply to any shortfall in the payment of tax due on returned income where such shortfall is on account of under-estimate or failure to estimate-

- (a) The amount of Capital Gains or,
- (b) Income by way of winnings from lotteries, crossword puzzles, races, card games, gambling etc.
- (c) PGBP Income where the income accrues or arises under the said head for the first time
- (d) **the amount of dividend income [other than dividend under Section 2(22)(e)]**
~~Income in the nature referred to in Section 115BBDA i.e. dividend in aggregate exceeding of ₹ 10 Lakhs received during the PY~~



[Substituted by Finance Act 2021, effective from AY 2021-22]

and the assessee has paid the **whole of the amount of tax payable** in respect of above incomes as part of the remaining installments of advance taxes which are due, or where no such installment is due, **by 31st March of the financial year.**

SECTION 234A - INTEREST (PENAL NATURE) FOR DEFAULT IN FURNISHING OF ROI

Applicability:	1. The ROI is not filed within the due date u/s 139(1) or within the time allowed by the notice u/s 142 (1), or 2. The ROI is not furnished
Rate of Interest	1% for every month or part of the month
Period of Interest	1. When the ROI is filed: From the due date of filling the return, till the date of furnishing the ROI. 2. Where ROI is not filed: From the due date of filling Return of Income, upto the date of completion of assessment.
Amount on which interest is payable	Tax Payable Less: TDS/TCS/Advance Tax Paid/Relief u/s 89/AMT credit etc Tax Amount on which interest is payable:
	XXX XXX XXX

Return filed late, but tax paid before due date:

The ROI was filed belatedly, but the tax u/s 140A was paid before the due date u/s 139(1). **It was held that there was no loss of interest to the revenue and interest u/s 234A was not leviable. [Supreme Court]**

TDS/TCS CHART – ASSESSMENT YEAR 2022-23

[Weightage – 7 to 8 Marks]

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
192	Salary	Total income exceeds Basic exemption limit	Any person responsible for paying any income chargeable under the head "Salaries"	Any Individual (Employee)	Average rate of income - tax computed on the basis of the rates in force.	At the time of payment
192A	Premature withdrawal from Employee Provident Fund	Payment or aggregate payment ≥ ₹ 50,000	Trustees of the EPF Scheme or any authorised person under the Scheme	Any Individual (Employee)	10% [In case of failure to furnish PAN, TDS@ Maximum Marginal Rate]	At the time of payment
193	Interest on Securities	> ₹ 10,000 in a F.Y., in case of interest on 8% Savings (Taxable) Bonds, 2003 / 7.75% Savings (Taxable) Bonds, 2018. > ₹ 5,000 in a F.Y., in case of interest on debentures issued by a Co. in which the public are substantially interested, paid or credited to a resident individual or HUF by an A/c payee cheque. > No threshold specified in any other case.	Any person responsible for paying any income by way of interest on securities	Any Resident	10%	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
194	Dividend (including dividends on preference shares)	No TDS – upto ₹ 5,000 in a F.Y., in case of dividend paid or credited to an individual shareholder by any mode other than cash	The Principal Officer of a domestic company	Resident shareholder	10%	Before making any payment by any mode in respect of any dividend or before making any distribution or payment of dividend.
194A	Interest other than interest on securities	<p>➤ ₹ 40,000 in a F.Y., in case of interest credited or paid by –</p> <p>(i) A banking company;</p> <p>(ii) a co-operative society engaged in banking business; and</p> <p>(iii) a post office on any deposit under a notified Scheme.</p> <p>In all the above cases, if payee is a resident senior citizen, tax deduction limit is > ₹ 50,000.</p> <p>➤ ₹ 5,000 in a F.Y., in other cases.</p>	Any person (other than an individual or HUF whose total sales, gross receipts or turnover from business or profession do not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding F.Y.)	Any Resident	10%	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.
194B	Winnings from any lottery, crossword puzzle or card game or other game of any sort	> ₹ 10,000	The person responsible for paying income by way of such winnings	Any Person	30%	At the time of payment
194BB	Winnings from horse race	> ₹ 10,000 (No TDS on Camel Race)	Book Maker or a person holding licence for horse racing or for arranging for wagering or betting in any race course.	Any Person	30%	At the time of payment

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
194C	Payments to Contractors	Single sum credited or paid > ₹ 30,000 (or) The aggregate of sums credited or paid to a contractor during the F.Y. > ₹ 1,00,000 Note: Individual/HUF need not deduct tax where sum is credited or paid exclusively for personal purposes	Any person (other than an individual or HUF or AOP or BOI whose total sales, gross receipts or turnover from business or profession do not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding F.Y.)	Any Resident contractor carrying out any work (including supply of labour)	1% of sum paid or credited, if the payee is an individual or HUF 2% of sum paid or credited, if the payee is any other person.	At the time of credit of such sum to the account of the contractor or at the time of payment, whichever is earlier.
194D	Insurance Commission	> ₹ 15,000 in a financial year	Any person responsible for paying any income by way of remuneration or reward for soliciting or procuring insurance business	Any Resident	5%	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.
194DA	Any sum under a Life Insurance Policy	≥ ₹ 1,00,000 (aggregate amount of payment to a payee in a financial year) No TDS, if the payment is exempt under section 10(10D)	Any person responsible for paying any sum under a LIP, including the sum allocated by way of bonus Any person responsible for making the payment	Any resident	5% of the amount of income comprised	At the time of payment
194E	Payment to non-resident sportsmen or associations of income referred to in section 115BBA	NIL	Any person responsible for making the payment	<ul style="list-style-type: none"> ➤ Non-resident sportsman (including athlete) ➤ entertainer who is not a citizen of India or ➤ non-resident sports association or institution 	20.8% (including health and education cess@4%)	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
194EE	Payment of deposit under National Saving Scheme	≥ ₹ 2,500 in a financial year	Any person responsible for paying	Individual or HUF	10%	At the time of payment
194G	Commission on sale of lottery tickets	> ₹ 15,000 in a financial year	Any person responsible for paying any income by way of commission, remuneration or prize (by whatever name called) on lottery tickets	Any person stocking, distributing, purchasing or selling lottery tickets	5%	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.
194H	Commission or brokerage	> ₹ 15,000 in a financial year	Any person (other than an individual or HUF whose total sales, gross receipts or turnover from business or profession do not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession) during the immediately preceding F.Y.)	Any resident	5%	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.
194-I	Rent	> ₹ 2,40,000 in a financial year	Any person (other than an individual or HUF whose total sales, gross receipts or turnover from business or profession carried on by him do not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession) during the immediately preceding F.Y.)	Any resident	For P&M equipment - 2% or For land or building, land appurtenant to a building, furniture or fittings - 10%	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
194-IA	Payment on transfer of certain immovable property other than agricultural land	≥ ₹ 50 lakh (Consideration for transfer)	Any person, being a transferee (other than a person referred to in section 194LA) responsible for paying compensation for compulsory acquisition of immovable property other than rural agricultural land)	Resident transferor	1%	At the time of credit of such sum to the account of the transferor or at the time of payment, whichever is earlier.
194-IB	Payment of rent by certain individuals or HUF (When Section 194-I is not applicable)	> ₹ 50,000 for a month or part of a month	Individual/ HUF (other than Individual/HUF whose total sales, gross receipts or turnover from business or profession carried on by him exceeds ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding F.Y.)	Any Resident	5%	At the time of credit of rent, for the last month of the previous year or the last month of tenancy, if the property is vacated during the year, as the case may be, to the account of the payee or at the time of payment, whichever is earlier
194-IC	Payment under specified agreement referred to in section 45(5A)	No threshold specified.	Any person responsible for paying any sum by way of consideration, not being consideration in kind , under a registered agreement, wherein Land/Builing are handed over by the owner for development of real estate project, for a consideration, being a share in such project, with payment of part consideration in cash.	Any Resident	10% on Cash consideration only	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
194J	<ul style="list-style-type: none"> ➤ Fees for professional services ➤ Fees for technical services ➤ Royalty ➤ Non-compete fees ➤ Director's remuneration 	<p>> ₹ 30,000 in a financial year, for each category of income.</p> <p>(However, this limit does not apply in case of payment made to director of a company).</p>	<p>Any person, other than an individual or HUF; is liable to deduct tax u/s 194J,</p> <p>However, in case of fees for professional or technical services paid or credited, individual/HUF, whose total sales, gross receipts or turnover from business or profession exceeds ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding F.Y., is liable to deduct tax u/s 194J, except where fees for professional services is credited or paid exclusively for his personal purposes.</p>	Any Resident	<p>2% - Payee engaged only in the business of operation of call centre</p> <p>2%- In case of fees for technical services or royalty, where such royalty is in the nature of consideration for sale, distribution or exhibition of cinematographic films</p> <p>10%- Other payments</p>	At the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier.
194K	Income on units other than in the nature of capital gains	> ₹ 5,000 in a financial year	Any person responsible for paying any income in respect of units of a mutual fund/ Administrateion or of the specified undertaking/ specified company	Any Resident	10%	At the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier.

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
194LA	Compensation on acquisition of certain immovable property other than agricultural land	> ₹ 2,50,000 in a financial year	Any person responsible for paying any sum in the nature of compensation or enhanced on compulsory acquisition of immovable property	Any Resident	10%	At the time of payment
194M	<ul style="list-style-type: none"> ➤ Payments to Contractors ➤ Commission or brokeragee ➤ Fees for professional services 	> ₹ 50,00,000 in a financial year	Individual or HUF other than those who are required to deduct tax at source under section 194C or 194H or 194J	Any Resident	5%	At the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier.
194N	Cash withdrawals	> ₹ 1 crore	<ul style="list-style-type: none"> - a banking company or any bank or banking institution - a co-operative society engaged in carrying on the business of banking or - a post office <p>who is responsible for paying any sum, being the amount or the aggregate of amounts, as the case may be, in cash exceeding ₹ 1 crore during the previous year, to any person from <u>one or more accounts maintained by the recipient</u></p>	Any person	<p>@2% of such sum</p> <p>In case the recipient has not filed ROI for all the 3 immediately preceding P.Y.s, for which time limit u/s 139(1) has expired, such sum shall be the amt or agg. of amts, in cash > ₹ 20 lakh during the P.Y. TDS</p> <ul style="list-style-type: none"> - @2% of the sum, where cash withdrawal > ₹ 20 lakhs but ≤ ₹ 1 crore - @5% of sum, where cash withdrawal exceeds ₹ 1 crore 	At the time of payment of such sum

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
194-O	Payment to E-commerce participants	No TDS upto ₹ 5 lakhs, being gross amount of sales or service or both in a financial year to an e-commerce participant, being individual or HUF and such e-commerce participant has furnished PAN or Aadhar number to the e-commerce operator	E-commerce operator, who facilitates sale of goods or provision of services of an e-commerce participant through digital or electronic facility or platform	E-commerce participant	1% of gross amount of sale or service or both [In case of failure to furnish PAN, Maximum TDS@5%]	At the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier.
194P	Pension (along with interest on bank account)	Basic Exemption limit (₹ 3,00,000/₹ 5,00,000, as the case may be) [i.e., total income after giving effect to the deduction allowable under Chapter VI-A should exceed the basic exemption limit. Further, in case the individual is entitled to rebate under section 87A from tax payable, then the same should be given effect to]	Notified specified bank	Specified senior citizen i.e., An individual, being a resident in India, who - is of the age of 75 years or more at any time during the PY; - is having pension income and no other income except interest income received or receivable from any account maintained by such individual in the same specified bank in which he is receiving his pension income; and - has furnished a declaration to the specified bank.	Rates in force	

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
D 194Q	Purchase of goods	> ₹ 50,00,000 in a previous year	Buyer Buyer means a person whose total sales, gross receipts or turnover from business exceeds ₹ 10 crores during the FY immediately preceding the FY in which the purchase of goods is carried out.	Any Resident	0.1% of sum exceeding ₹ 50 lakhs	At the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier

Mandatory requirement of furnishing PAN in all TDS Matters [Sec 206AA]:

- A. Any person whose receipts are subject to TDS i.e. the deductee, shall mandatorily furnish his PAN to the deductor otherwise the deductor shall deduct tax at source at higher of the following rates –
- the rate prescribed in the Act;
 - at the rate in force i.e., the rate mentioned in the Finance Act; or
 - at the rate of 20% (5% in case of Section 194-O & Section 194Q).**
- B. Furnishing of PAN is mandatory also in cases where the taxpayer files a declaration in Form 15G or 15H (under section 197A) for non deduction of TDS otherwise, above mentioned rates will apply.
- C. Further, No certificate u/s 197 (Lower TDS) will be granted by the AO unless the PAN is furnished by the applicants.

Higher rate of TDS for non-filers of income-tax return [Section 206AB]

[Inserted by Finance Act 2021, effective from 01.07.2021]

- Section 206AB requires tax to be deducted at source under the provisions of this Chapter on any sum or income or amount paid, or payable or credited, by a person to a specified person, at higher of the following rates –

- at twice the rate prescribed in the relevant provisions of the Act;
- at twice the rate or rates in force i.e., the rate mentioned in the Finance Act; or
- at 5%

However, section 206AB is not applicable in case of tax deductible at source under sections 192, 192A, 194B, 194BB, 194LBC or 194N.

- In case the provisions of section 206AA are also applicable to the specified person, in addition to the provisions of this section, then, tax is required to be deducted at higher of the two rates provided in section 206AA and section 206AB.

3. Meaning of “specified person”

A person

- ✓ who has **not** filed the returns of income for **both** of the two assessment years relevant to the two previous years immediately prior to the previous year in which tax is required to be deducted,
 - ✓ for which the time limit of filing return of income under section 139(1) has expired,
 - ✓ **and** the **aggregate** of tax deducted at source **and** tax collected at source in his case is ₹50,000 or more in **each** of these two previous years.
- However, the specified person **does not include** a non-resident who **does not** have a permanent establishment in India.

VARIOUS TCS RATES

1. [Section 206C(1)]

Sr. No	Nature of goods	TCS Rate
1	Alcoholic liquor for human consumption (other than Indian made foreign liquor)	1%
2	Tendu Leaves	5%
3	Timber obtained under a forest lease	2.5%
4	Timber obtained by mode other than under a forest lease	2.5%
5	Any other forest produced not being timber or tendu leaves	2.5%
6	Scrap	1%
7	Minerals, being Coal or lignite or iron ore	1%

[Section 206C(1A)] Such tax is not to be collected if the purchase of above goods is made by buyer (Resident in India) for the purpose of manufacturing, processing or producing articles or things or for the purposes of generation of power.

Here "Seller" means [Same as Section 206C(1)]

- the Central Government, a State Government or any local authority or corporation or authority established by or under a Central, State or Provincial Act, or any company or firm or co-operative society and
- **also includes an individual or a HUF** whose total sales, gross receipts or turnover from the business or profession carried on by him **exceed ₹ 1 crore in case of business and ₹ 50 lakhs** in case of profession during the financial year immediately preceding the financial year in which the motor vehicle is sold.

2. **[Section 206(1C)]** Sub-section (1C) provides for collection of tax **[at the rate of 2%]** by every person who grants a lease or a licence or enters into a contract or otherwise transfers any right or interest in any

- parking lot or
- toll plaza or
- a mine or a quarry

to another person (other than a public sector company) for the use of such parking lot or toll plaza or mine or quarry for the purposes of business.

3. **[Section 206(1F)]** Every Person, being a Seller, who receives any amount as consideration for sale of a motor vehicle (at retail level) of the **value exceeding ten lakh rupees**, shall, **at the time of receipt** of such amount, collect from the buyer, a sum equal to **1% of the sale consideration** (any mode) as income-tax.

4. **[Section 206C(1G)] Overseas remittance or an overseas tour package [w.e.f. 1.10.2020]**

Section 206C(1G) provides for collection of tax by every person,

- being an **authorized dealer**, who receives amount, under the Liberalised Remittance Scheme of the RBI, for overseas remittance from a buyer, being a person remitting such amount out of India;
- being a **seller of an overseas tour programme package** who receives any amount from the buyer who purchases the package **at the rate of 5% of such amount.**

Tax has to be collected at the time of debiting the amount payable by the buyer or at the time of receipt of such amount from the said buyer, by any mode, whichever is earlier.

Rate of TCS in case of collection by an authorized dealer

S. No.	Amount and purpose of remittance	Rate of TCS
(i)	(a) Where the amount is remitted for a purpose other than purchase of overseas tour programme package; and (b) the amount or aggregate of the amounts being remitted by a buyer is less than ₹ 7 lakhs in a financial year	Nil (No tax to be collected at source)
(ii)	(a) where the amount is remitted for a purpose other than purchase of overseas tour programme package; and (b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year	5% of the amt or agg. of amts in excess of ₹ 7 lakh
(iii)	(a) where the amount being remitted out is a loan obtained from any financial institution, for the purpose of pursuing any education; and (b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year	0.5% of the amt or agg. of amts in excess of ₹ 7 lakh

5. **Section 206C(1H)] Sale of goods of value exceeding ₹ 50 lakh**

- (a) As per section 206C(1H), tax is also required to be collected by a seller, who receives any amount as consideration for sale of goods of the value or aggregate of such value exceeding ₹ 50 lakhs in a previous year **[other than exported goods or goods covered under sub-sections (1)(1F)(1G)]**.
- (b) Tax is to be collected at source **@ 0.1% u/s 206C(1H)** of the sale consideration exceeding ₹ 50 lakhs, **at the time of receipt of consideration**.
- (c) Tax is, however, not required to be collected if the buyer is liable to deduct tax at source under any other provision of the Act on the goods purchased by him from the seller **and has deducted such tax**.

Seller means a person whose total sales, gross receipts or turnover from the business carried on by him **exceed ₹ 10 crores during the financial year immediately preceding the financial year in which sale of goods is carried out**.

6. **Section 206CC**

TCS Rate in case PAN is not submitted:—

- a. at **twice the rate** specified in the relevant provision of this Act; or
- b. at the rate of **5% [but 1% in case of Section 206(1H)]**

7. **Section 206CCA - Special provision for collection of tax at source for non-filers of income-tax return**  **Inserted by the Finance Act 2021, effective from 01.07.2021**

Notwithstanding anything contained in any other provisions of this Act, where tax is required to be collected at source under the provisions of Chapter XVII-BB, on any sum or amount received by a person **from a specified person**, the tax shall be collected at the **higher of the following two rates**, namely:—

- (i) **at twice** the rate specified in the relevant provision of the Act; or
- (ii) **at the rate of 5%**.

HINDU UNDIVIDED FAMILY

Normal Slab Rate vs Alternate Minimum Tax (Section 115JC) vs Alternative Tax Regime (Section 115BAC)

- 1) A person becomes a member of the HUF not by virtue of contract but by his birth.
- 2) **Cessation of membership:**
 - ✓ A male member continues to be a member of the HUF until partition of the HUF. On partition, he ceases to be a member of the earlier larger HUF and becomes member of another smaller HUF.
 - ✓ A female member ceases to be a member of the HUF in which she was born, when she gets married; in that case, she becomes a member of the HUF of her husband.
- 3) **Co-parcenership:** Co-parcener refers to those members of an HUF who acquire by birth an interest in the joint family property. Only the coparceners have a right to partition. **After commencement of Hindu Succession (Amendment) Act, 2005, the female members have been brought at par with the male members.**
- 4) **Schools of Hindu Law: There are two schools of Hindu law. They are**
 - (1) Mithakshara school of Hindu law
 - (2) Dayabhaga school of Hindu law

Mithakshara law is followed by entire India except West Bengal and Assam. Under the Mithakshara law, the inheritance is by birth. Dayabhaga law prevails in West Bengal and Assam. In Dayabhaga law, nobody acquires the right, share in the property by birth as long as the head of family is living

- 5) **ASSESSMENT OF HUF:**
The income of a HUF is to be assessed in the hands of the HUF and not in the hands of any of its members. This is because HUF is a separate and a distinct tax entity.
- 6) **FOLLOWING POINTS SHALL BE CONSIDERED:**
 1. **Remuneration to member of HUF due to investment of HUF fund:** Where joint fund is invested in a company or a firm, fees or remuneration received by any member of HUF as a director or partner from such company or firm by virtue of such investment shall be treated as income of the HUF. On the other hand., where such remuneration or fees is received by virtue of service rendered by such member (in his personal capacity) then such amount shall be taxable in hands of such member
 2. **Remuneration to Karta:** Any genuine (not excessive) remuneration paid to the Karta for conducting business of the HUF is allowed expenditure in the hands of the HUF provided such remuneration is paid under a bonafide agreement and is in the interest of the family business.
 3. **Any sum received by member from HUF paid out of income of HUF is exempt in the hands of member.**
 4. **Personal income of the members:** income of the member of HUF acquired in his personal capacity shall not be taxable in the hands of HUF.
 5. **Income from impartible estate:** Though the impartible estate belongs to the family, income arising there from is taxable in the hands of the holder of the 'estate' and not in the hands of the HUF.

7) **Deduction Available to HUFs**

Sl. No.	Section	Nature of Deductions
1	80C	Deduction in respect of Life Insurance Premium, deferred annuity, contribution to PF, subscription to certain equity shares or debentures, etc.
2	80D	Payment of medical insurance premium
3	80DD	Medical treatment of handicapped dependents and deposits made for maintenance of handicapped dependents
4	80DDB	Deduction in respect of medical treatment, etc.
5	80G	Donations to certain funds/charitable institutions etc.
6	80GGA	Certain donations for scientific research or rural development
7	80GGC	Deduction in respect of contribution given by any person to political parties
8	80TTA	Deduction in respect of Saving Bank Account Interest

SURAJ AGRAWAL TAX CLASS

ALTERNATE MINIMUM TAX

SECTION 115JC (AY 2022-23)

8 to 10 marks topic

(Alternate Minimum Tax to any person other than company)

Section 115JC(1): Where the regular income-tax payable for a previous year by a person (other than company) is less than 18.5% of its Adjusted Total Income (AMT), such adjusted total income shall be deemed to be the total income of such person and it shall be liable to pay income-tax on such total income at the rate of 18.5%.

Adjusted Total Income shall be the Total Income as increased by

- A. Deductions claimed under any section in chapter VIA **under the heading "C - Deductions in respect of certain incomes" (Other than 80P)**,
- B. Deduction claimed u/s 10AA &
- C. **Deduction claimed u/s 35AD** as reduced by the amount of depreciation allowable u/s 32 as if no deduction u/s 35AD was allowed.

To whom Alternate Minimum Tax shall be applicable [Section 115JEE (1)]

The provisions of Alternate Minimum Tax shall apply to a non-corporate assessee who has claimed any deduction under:

(a) Sections 80-IA to 80RRB **other than section 80P**; or

[only 3 sections are in CA-Inter syllabus – 80JJAA, 80QQB & 80RRB]

(b) Section 10AA; or

(c) Section 35AD

To whom Alternate Minimum Tax shall not be applicable [Section 115JEE (2)]

However, provisions of AMT is not applicable if, Adjusted TI of

- a. Individual
- b. HUF
- c. AOP/BOI
- d. AJP;

doesn't exceeds ₹ 20,00,000.

Section 115JEE(3): Notwithstanding anything contained in sub-section (1) or (2), the credit for tax paid under Section 115JC shall be allowed in accordance with the provisions of Section 115JD.

Steps involving calculation of Tax where Alternate Minimum Tax provisions applies:

- Step 1:** Calculate the regular Income-tax liability of the non-corporate assessee ignoring the provisions of Sections 115JC to 115JF.
- Step 2:** Calculate Adjusted Total Income of the non-corporate assessee.
- Step 3:** Calculate Alternate Minimum Tax by applying 18.5% + Surcharge (if applicable) + 4% H & EC on Adjusted Total Income computed under Step 2.
- Step 4:** Compare tax liability computed under Step 1 and AMT computed under Step 3. If amount computed under Step 1 is equal to or more than amount computed under Step 3, then the provisions of Alternate Minimum Tax will not apply.
- Step 5:** If amount computed under Step 1 is less than amount computed under Step 3, then amount computed under Step 3 will be deemed as tax liability of the non-corporate assessee for such Previous Years.

Report from a Chartered accountant [Section 115JC(3)]:

Every person to whom this section applies shall obtain a report, before the specified date referred to in section 44AB (i.e., one month prior to the due date for filing return of income), in such form as may be prescribed, from an accountant referred to in the Explanation below sub-section (2) of section 288 (i.e. a Chartered Accountant), certifying that the adjusted total income and the alternate minimum tax have been computed in accordance with the provisions of this Chapter and furnish such report by that date.

Tax credit for Alternate Minimum Tax [Section 115JD]:

- The credit for tax (tax credit) paid shall be allowed to the extent of the excess of the AMT paid over the regular income-tax.
- This tax credit shall be allowed to be **carried forward up to the 15th assessment year** immediately succeeding the assessment year for which such credit becomes allowable.
- It shall be allowed to be set off for an assessment year **in which the regular income-tax exceeds the AMT** to the extent of the excess of the regular income-tax over the AMT.

Section 115JC(5): The provisions of this section shall not apply to a person who has exercised the option referred to in section 115BAC or section 115BAD.

TOTAL INCOME & TAX COMPUTATION – SET A**19th Edition Series - Assessment Year 2022-23****Total 20 Practical Questions**

1. Ms. Vaishali, employed in a private sector company, furnishes following information for the year ended 31.03.2022.

Particulars	₹
Income from salary (computed)	3,45,000
Bank interest (Fixed Deposit)	15,000
Tax on non-monetary perquisite paid by employer	20,000
Amount contributed by her during the year are given below:	
➤ Contribution to recognized provident fund	60,000
➤ Health insurance premium-on self (paid by crossed cheque)	7,000
➤ Medical expenditure for dependent sister with disability	20,000

Compute the total income of Ms. Vaishali for the assessment year 2022-23. Ignore Section 115BAC.

Answer:

Computation of total income of Ms. Vaishali for the A.Y. 2022-23

Particulars	₹	₹
Income from salary (computed)		3,45,000
Income from other sources		
Bank Interest (Fixed Deposit)		15,000
Gross Total Income		3,60,000
Less: Deductions under Chapter VI-A		
Section 80C		
Contribution to recognized provident funds	60,000	
Section 80D		
Medical insurance premium (Note -2)	7,000	
Section 80DD		
Medical expenditure for dependent sister with disability (flat deduction irrespective of expenditure incurred)	75,000	1,42,000
Total income		2,18,000

Note:

- Tax on non-monetary perquisite paid by employer is exempt in the hands of employee under section 10(10CC).
- Medical insurance premium paid by cheque for self is allowed as deduction under section 80D.

2. Dr. Gurumoorthy, a resident individual at Madurai, aged 50 years is running a clinic. His Income and Expenditure Account for the year ending 31st March, 2022 is as under:

Expenditure	₹	Income	₹
To Medicine consumed	8,40,000	By Consultation and Medical charges	21,00,000
To Staff salary	4,25,000	By Income-tax refund	16,500
To clinic consumables	1,55,000	(principal ₹ 15,000, interest ₹ 1,500)	
To Rent paid	1,20,000	By Dividend from Indian companies	27,000
To Administrative expenses	3,00,000	(Gross)	
To Donation to IIT Delhi for Research approved under section 35(2AA)	1,00,000	By Winning from lottery (Net of TDS)	35,000
To Net Profit	2,92,500	By Rent	54,000
	22,32,500		22,32,500

Particulars:

(i) Rent paid includes ₹ 36,000 paid by cheque towards rent for his residence.

(ii) Clinic equipments are :

- 01.04.2021 Opening WDV ₹ 4,50,000
- 07.02.2022 Acquired (cost) ₹ 1,00,000

(iii) Rent received relates to property let out at Madurai. Gross Annual Value ₹ 54,000. The municipal tax of ₹ 9,000, paid in January 2022 has been included in “administrative expenses”.

(iv) Dr. Gurumoorthy availed a loan of ₹ 5,50,000 from a bank for higher education of his daughter. He repaid principal of ₹ 50,000, and interest thereon ₹ 65,000 during the year 2021-22.

(v) He paid ₹ 60,000 as tuition fee to the university for full time education of his son.

From the above, compute the total income of Dr. Gurumoorthy for the A.Y. 2022-23. Ignore Section 115BAC.

Answer:**Computation of total income of Dr. Gurumoorthy for the A.Y. 2022-23**

	Particulars	₹	₹	₹
I	Income from profession			
	Net profit as per Income and Expenditure account		2,92,500	
	Less: Items of income to be treated separately			
	➤ Income tax refund (including interest)	16,500		
	➤ Dividend from Indian companies	27,000		
	➤ Winning from lottery (net of TDS)	35,000		
	➤ Rent received	54,000	1,32,500	
			1,60,000	
	Add: Expenditure debited but not allowable			
	➤ Rent for his residence	36,000		
	➤ Municipal tax paid relating to residential house at Madurai included in administrative expenses	9,000	45,000	
			2,05,000	
	Less: Expenditure allowable but not debited			
	Depreciation on Clinic equipments u/s 32			
	➤ on ₹ 4,50,000 @ 15%	67,500		
	➤ on ₹ 1,00,000 @ 7.5% (i.e.50% of 15%)	7,500		
	Deduction of 100% in respect of amount paid to IIT [100% is available in respect of such payment under section 35(2AA), no adjustment is needed]	-	75,000	1,30,000
II	Income from house property			
	Gross Annual Value (GAV)		54,000	
	Less : Municipal taxes paid		9,000	
	Net Annual Value (NAV)		45,000	
	Less : Deduction under section 24 @ 30%		13,500	31,500
III	Income from other sources			
	Interest on Income-tax refund		1,500	
	Dividend from Indian companies (now taxable)		27,000	
	Winnings from lottery (See Note 1)		50,000	78,500
	Gross Total Income			2,40,000
	Less: Deductions under Chapter VI A:			
	• Under section 80C			
	Tuition fee paid to university for full time education of his son		60,000	
	• Under section 80E			
	Interest on loan taken for higher education of daughter		65,000	
	❖ but restricted to (See Note 2)		1,25,000	113,000
	Total income			1,27,000

Notes:

1. Winnings from lottery should be grossed up for the chargeability under the head "Income from other sources". **The applicable rate of TDS is 30%**. Gross income from lottery, would, therefore, be ₹ 35,000/70% = ₹ 50,000
2. Deduction under Chapter VI-A cannot exceed Gross Total Income. Further, no deduction is allowable from income by way of winning from lottery. Therefore, the maximum deduction allowable would be ₹ 1,13,000.

	₹
Gross Total Income	1,63,000
Less: Winnings from lottery	<u>50,000</u>
Maximum deduction under Chapter VI-A	<u>113,000</u>

The total income of ₹ 50,000 would, therefore, represent winnings from lottery taxable at a flat rate of 30%, without any basic exemption limit.

3. **VERY IMP:** Dr. Gurumoorthy is staying in a rented premises in Madurai itself. Hence, he would not be eligible for deduction under section 80GG, since he owns a house in Madurai which he has let out.

3. Ms. Purvi, aged 55 years, is a Chartered/Cost Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2022 reads as follows:

Expenditure	(₹)	Income	(₹)
Salary to staff	15,50,000	Fees earned:	
Stipend to trainee assistants	1,37,000	Audit	27,88,000
Incentive to trainee assistants	3,000	Taxation services	15,40,300
Office rent	12,24,000	Consultancy	12,70,000
Printing and stationery	12,22,000	Dividend on shares of Indian	10,524
Meeting, seminar and	31,600	companies (Gross)	
Conference		Income from UTI (Gross)	7,600
Purchase of car (01.05.2021)	80,000	Honorarium received from various	15,800
Repair, maintenance and petrol	4,000	institutions for valuation of answer	
of car		papers	
Travelling expenses	35,000	Rent received from residential flat let	85,600
Municipal tax paid in respect of	3,000	out	
house property			
Net Profit	9,28,224		
	57,17,824		57,17,824

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is ₹ 10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing Examination at first attempt.
- (iv) Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2021 to 30-09-2022.
- (v) Salary include ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- (vi) The total travelling expenses incurred on foreign tour was ₹ 32,000 which was within the RBI norms.
- (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000, respectively, paid in cash.
- (viii) She invested an amount of ₹ 10,000 in National Saving Certificate.

Compute the total income and tax payable of Ms. Purvi for the assessment year 2022-23. Ignore Section 115BAC.

Answer:

Computation of total income and tax liability of Ms. Purvi for the A.Y. 2022-23

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		33,924
Gross Total Income		10,11,944
Less: Deductions under Chapter VI-A (See Working Note 4)		10,000
Total Income		10,01,944
Tax on total income		10,01,940
Up-to ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,001 - ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,001 - ₹ 10,01,940 @30%	582	
Add: Health & Education cess @ 4%		4,523
Total tax liability (Rounded off)		1,17,605
		1,17,610

Working Notes:

(1) Income from House Property

Particulars	₹	₹
Gross annual value under section 23(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction under section 24 @ 30% of NAV	24,780	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head “Profits & Gains of Business or Profession”

Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds ₹ 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(iii) Municipal Taxes paid in respect of residential flat let out	3,000	1,13,000
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,51,724
		10,500
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of Indian companies	10,524	
(ii) Income from UTI	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
Less: Depreciation on motor car @15% (See Note (i) below)		9,32,200
PGBP		9,20,200

Notes:

- (i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

- (ii) Incentive to articled assistants for passing examination in their first attempt is deductible under section 37(1).
- (iii) Repairs and maintenance paid in advance for the period 1.4.2022 to 30.9.2023 i.e. for 6 months amounting to ₹ 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	₹	₹
Dividend on shares of Indian companies (now taxable)		10,524
Income from UTI (now taxable)		7,600
Honorarium for valuation of answer papers		15,800
		33,924

(4) Deduction under Chapter VI-A :

Particulars	₹
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	Nil
Total deduction under Chapter VI-A	10,000

Notes:

- (i) Premium paid to insure the health of brother is not eligible for deduction under Section 80D, even though he is a dependent, since **brother is not included in the definition of “family” under section 80D.**
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since **payment is made in cash.**

4. Calculate the income-tax liability (Ignore Section 115BAC) for the Assessment Year 2022-23 in the following cases:

	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Status	Resident	Non Resident	Resident	Non Resident
Total income other than long-term capital gain	2,40,000	2,80,000	5,90,000	4,80,000
Long-term capital gain	15,000 from sale of vacant site	10,000 from sale of unlisted shares	60,000 from sale of agricultural land in rural area	Nil

Answer:

Computation of income-tax liability for the A.Y. 2022-23

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Status	Resident	Non Resident	Resident	Non Resident
Applicable basic exemption limit	₹ 2,50,000	₹ 2,50,000	₹ 5,00,000	₹ 2,50,000
Asset sold	Vacant site	Unlisted shares	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	₹ 15,000 [Taxable@20% u/s 112]	₹ 10,000 [Taxable@20% u/s 112]	₹ 60,000 (Exempt – not a capital asset)	-
Other income	₹ 2,40,000	₹ 2,80,000	₹ 5,90,000	₹ 4,80,000
Tax liability				
On LTCG (15000-10000)*20%	₹ 1,000	2,000	-	-
On Other income (after adjusting Basic Exemption limit)	₹ NIL	₹ 1,500	₹ 18,000	₹ 11,500
	₹ 1,000	₹ 3,500	₹ 18,000	₹ 11,500
	₹ 1,000			
Less: Rebate u/s 87A	₹ NIL			
	NIL	140	720	460
Add: Health & Education cess 4%				
Total tax liability	₹ NIL	₹ 3,640	₹ 18,720	₹ 11,960

Notes:

- Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of ₹ 3,00,000 and ₹ 5,00,000 for persons over the age of 60 years and 80 years, respectively.
- Since Mr. A is a resident whose total income does not exceed ₹ 3.5 lakhs, he is eligible for rebate of ₹ 12,500 under section 87A.

5. VERY IMP: Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2022 revealed the following information:

- The net profit was ₹ 11,20,000.
- The following incomes (gross) were credited in the profit and loss account :
 - Dividend from UTI ₹ 22,000.
 - Interest on debentures ₹ 17,500.
 - Winnings from races ₹ 15,000.
- It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:

Opening stock ₹ 8,000.
Closing stock ₹ 12,000.
- ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
- Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.
- Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.
- Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes. $\frac{3}{4}$ th is for business purposes.
- Miscellaneous expenses included ₹ 30,000 paid to A & CO., a goods transport operator in cash on 31-1-2022 for distribution of the company's product to the warehouses.
- Depreciation debited in the books was ₹ 55,000. Depreciation allowed as per Income-tax Rules, 1962 was ₹ 50,000.
- Drawings ₹ 10,000.
- Investment in NSC ₹ 15,000.

Compute the total income of Mr. Y for the assessment year 2022-23. Ignore Section 115BAC.

Answer: Computation of total income of Mr. Y for the A.Y. 2022-23

Particulars	₹
Profits and gains of business or profession (See Working Note 1 below)	11,21,500
Income from other sources (See Working Note 2 below)	54,500
Gross Total Income	11,76,000
Less: Deduction under section 80C (Investment in NSC)	15,000
Total Income	11,61,000

Working Notes:**1. Computation of profits and gains of business or profession**

Particulars	₹	₹
Net profit as per profit and loss account		11,20,000
Add :Expenses debited to profit and loss account but not allowable as deduction		
Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	
Motor car expenses attributable to personal use not allowable (₹ 78,000 × ¼)	19,500	
Depreciation debited in the books of account	55,000	
Drawings (not allowable since it is personal in nature)[See Note (iii)]	10,000	
Investment in NSC [See Note (iii)]	15,000	1,02,000
Add : Under-statement of closing stock		12,22,000
		12,000
Less: Under-statement of opening stock		12,34,000
		8,000
Less: Contribution to a University approved and notified under section 35(1)(ii) is eligible for deduction@100%. No adjustment is needed.		12,26,000
		-
		12,26,000
Less : Incomes credited to profit and loss account but not taxable as business income		
Income from UTI		
Interest on debentures (taxable under the head “Income from other sources”)	22,000	
Winnings from races (taxable under the head “Income from other sources”)	17,500	
	15,000	54,500
Less : Depreciation allowable under the Income-tax Rules, 1962		11,71,500
		50,000
		11,21,500

Notes:

- (i) Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- (ii) Disallowance under Section 40A(3) is not attracted in respect of cash payment of ₹ 30,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of ₹ 35,000 is applicable (i.e. payment of up-to ₹ 35,000 can be made in cash without attracting disallowance under Section 40A(3))
- (iii) Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.

2. Computation of “Income from other sources”

Particulars	₹
Income from UTI	22,000
Interest on debentures	17,500
Winnings from races	15,000
	54,500

Note:

The following assumptions have been made in the above solution:

1. The figures of interest on debentures and winnings from races represent the gross income (i.e., amount received plus tax deducted at source).

2. it has been given that depreciation as per Income-tax Rules, 1962 is ₹ 50,000. It has been assumed that, in the said figure of ₹ 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

6. **VERY IMP:** Mrs. Deepali (aged 40 years), working with M/s Good Company Ltd., a manufacturer of tyres based at Mumbai, has received the following payments during the financial year 2021-22 from her employer:

Basic salary	₹ 60,000 per month.
Dearness allowance	40% of basic salary.

Her employer has taken on rent her own house on a monthly rent of ₹ 15,000 and the same has been provided for residence of Mrs. Deepali. Company is recovering ₹ 2,000 per month as rent of house. Mrs. Deepali has further furnished the following details:

- (i) She has paid professional tax of ₹ 6,000 during financial year 2021-22.
(ii) She is owning only one house and payment of interest of ₹ 1,75,000 and principal of ₹ 1,00,000 was made for housing loan taken for purchase of house.
(iii) She has also taken a loan of ₹ 2,00,000 from her employer for study of her son. SBI rate for such loan is 10%. Her employer has recovered ₹ 10,000 as interest from her salary for such loan during the year.

Compute taxable income and tax liability for assessment year 2022-23. Ignore Section 115BAC.

Answer:

Computation of taxable income of Mrs. Deepali for A.Y. 2022-23

Particulars	₹	₹
Income from Salaries		
Basic salary (₹ 60,000 x 12)		7,20,000
Dearness Allowance (40% of basic salary)		2,88,000
Perquisite value of Concessional Accommodation taken on hire.	1,08,000	
Lower of:		
(i) actual rent (₹ 15,000 x 12) ₹ 1,80,000		
(ii) 15% of salary (15% of ₹ 7,20,000) ₹ 1,08,000 (assuming that dearness allowance does not form part of pay for retirement benefits)		
	<u>24,000</u>	84,000
Less: Rent recovered (₹ 2,000x12)		10,000
Perquisite value of concessional loan [Rule 3(7)(i)] [₹ 20,000 (10% of ₹ 2,00,000) – ₹ 10,000]		
Gross Salary		11,02,000
Less: Deduction under section 16(ia)		50,000
Deduction under section 16(iii) - Professional tax paid		6,000
Net Salary		10,46,000
Income from house property		
Gross Annual Value (GAV) (Rental income has been taken as GAV in the absence of other information)	1,80,000	
Less: Deduction under section 24		
(a) 30% of ₹ 1,80,000 = ₹ 54,000		
(b) Interest on loan = ₹ 1,75,000	2,29,000	(49,000)
Gross Total Income		10,07,000
Less: Deductions under Chapter – VIA		
80C – Repayment of housing loan		1,00,000
Total Income		9,07,000

Computation of tax liability for A.Y. 2022-23

Tax on ₹ 9,47,000	₹
Up-to ₹ 2,50,000	Nil
250,001 -5,00,000 - 5%	12,500
5,00,001 – 9,07,000 - 20%	81,400
Total	93,900
Add: Health & Education cess @ 4%	3,756
Total Tax Liability	97,656
Total Tax Liability (Rounded off)	97,660

Note: Mrs. Deepali cannot claim benefit of self-occupation (i.e. taking the annual value as nil and claiming a higher loss of ₹ 2,00,000) in respect of the house property owned and occupied by her, since the same has been given on rent to her employer, who has allotted the same as residence for Mrs. Deepali.

7. Shri Madan (age 61 years) gifted a building owned by him to his son's wife Smt. Hema on 01.10.2021. The building fetched a rental income of ₹ 10,000 per month throughout the year. Municipal tax for the first half-year of ₹ 5,000 was paid in June 2021 and the municipal tax for the second half-year was not paid till 30.09.2022. Incomes of Shri Madan and Smt. Hema other than income from house property are given below:

Name	Business income (₹)	Capital gain (₹)	Other sources (₹)
Shri Madan	1,00,000	50,000 (long term)	1,50,000
Smt. Hema	(75,000)	2,00,000 (short term)	50,000

Note: Capital gain does not relate to gain from shares and securities.

Compute the total income of Shri. Madan and Smt. Hema taking into account income from property given above and also compute their income-tax liability for the assessment year 2022-23. Ignore Section 115BAC.

Answer:

Computation of total income and tax liability of Shri Madan for A.Y. 2022-23

Particulars	₹	₹
Income from house property (Refer Note 1)	80,500	
Business Income	1,00,000	
Long-term Capital Gains	50,000	
Income from Other Sources	1,50,000	
Total Income		3,80,500
Computation of tax liability		
Long-term Capital Gain of ₹ 50,000 @ 20%	10,000	
Other income of ₹ 3,30,500 (₹ 3,30,500 – ₹ 3,00,000) × 5% (Refer Note 2)	1,525	
Tax before rebate		11,525
Less: Rebate under section 87A		11,525
Tax liability		NIL

Computation of Total Income and Tax Liability of Smt. Hema for A.Y. 2022-23

Particulars	₹	₹
Short-term Capital Gains	2,00,000	
Less: Business loss	75,000	1,25,000
Income from Other Sources		50,000
Total Income		1,75,000
Tax liability (Since total income is less than basic exemption limit of ₹ 2,50,000)		Nil

Notes:

1. As per section 64(1)(vi), the income arising to the son's wife of an individual, directly or indirectly, from assets transferred to her, otherwise than for adequate consideration, by such individual, shall be included in the total income of the individual.

Therefore, the rental income from building transferred by Shri Madan to his son's wife Smt. Hema without consideration on 01.10.2021 is includible in the hands of Shri Madan.

Computation of Income from House Property

Particulars	Madan (₹)	Hema (₹)
	Period (01.04.2021- 30.09.2021)	Period (01.10.2021- 31.03.2022)
Gross Annual Value (₹ 10,000 × 6 months) (Rental income taken as GAV in the absence of information relating to Municipal Value, fair value and standard rent)	60,000	60,000

Less: Municipal taxes paid (paid in June for first half year only)	5,000	Nil
Net Annual Value (NAV)	55,000	60,000
Less: Deduction under section 24(a) - 30% of NAV	16,500	18,000
Income from House Property	38,500	42,000
Income from House Property of Hema to be clubbed in the hands of Madan as per section 64(1)(vi)	42,000	
Income from house property	80,500	

2. The basic exemption limit for A.Y. 2022-23 in respect of an individual who is of the age of 60 years or more during the relevant previous year is ₹ 3,00,000. The same has been considered while calculating Madan's tax liability.

8. **[IMPORTANT]** Mr. Chandran (aged 38) owned 6 non-heavy goods vehicles as on 01.04.2021. He acquired 2 more non-heavy goods vehicles on 1.7.2021. He is solely engaged in the business of plying goods vehicles on hire since financial year 2012-13.

He did not opt for presumptive provision contained in section 44AE for the financial year 2020-21. His books were audited under section 44AB and the return of income was filed on 5.8.2021. He has unabsorbed depreciation of ₹ 70,000 and business loss of ₹ 1,00,000 for the financial year 2020-21.

Following further information is provided to you:

- Deposited ₹ 20,000 in Tax Saver Deposit with UCO Bank in the name of married son.
- Paid medical insurance premium of ₹ 33,000 for his parents (both aged above 70) by means of bank demand draft.
- Paid premium on life insurance policy of his married daughter ₹ 25,000. The policy was taken on 1.04.2013 and the minimum sum assured is ₹ 2,00,000.
- Repaid principal of ₹ 40,000 and interest of ₹ 15,000 to Canara Bank towards education loan of his daughter, who completed B.E. two years ago. She is employed after completion of her studies.

Assuming that Mr. Chandran has opted for presumptive provision contained in section 44AE of the Income-tax Act, 1961 for F.Y. 2021-22.

Compute the total income of Mr. Chandran for the Assessment Year 2022-23. Ignore Section 115BAC.

Answer:

Computation of total income of Mr. Chandran for the A. Y. 2022-23

Particulars	₹	₹
Income from business of plying goods vehicle (Refer Note 1)		6,75,000
Less: Brought forward business loss of financial year 2020-21 (Refer Note 2 & 3)		1,00,000
Gross Total Income		5,75,000
Less: Deduction under Chapter VI-A		
Section 80C:-		
Life insurance premium paid for insurance of married daughter (Refer Note 5)	20,000	
Section 80D:-		
Medical insurance premium paid for insurance of parents (Refer Note 6)	33,000	
Section 80E:-		
Interest paid towards education loan taken for studies of his daughter (Refer Note 7)	15,000	68,000
Total Income		5,07,000

Working Notes:

- (1) **Computation of income from business of plying goods vehicles under section 44AE.**

Particulars	₹
6 non-heavy goods vehicle held throughout the year (₹ 7,500×6×12)	5,40,000
2 non-heavy goods vehicle – held for 9 months (₹ 7,500×2×9)	1,35,000
Income under section 44AE	6,75,000

- (2) As per section 44AE, any deduction allowable under the provisions of sections 30 to 38 shall be deemed to have been already allowed. **Therefore, the unabsorbed depreciation of ₹ 70,000 shall not be allowed as a deduction since it is covered by section 32.**
- (3) Brought forward business loss of ₹ 1,00,000 shall be allowed as deduction, by virtue of section 72, as it is allowed to be carried forward for 8 assessment years following the assessment year to which it relates, since the return for A.Y. 2021-22 was filed before the due date specified under section 139(1).
- (4) **Fixed deposit in the name of married son does not qualify for deduction under section 80C.**
- (5) Premium paid for insurance on the life of any child of the individual, whether married or not, qualifies for deduction under section 80C. In respect of policies issued on or after 1.04.2012, only premium paid to the extent of 10% of “minimum capital sum assured” qualifies for deduction under section 80C. Therefore, out of the life insurance premium of ₹ 25,000 paid for insurance policy of married daughter, only ₹ 20,000 (being 10% of ₹ 2,00,000) is allowed as deduction under section 80C.
- (6) Deduction is allowed under section 80D for payment made for medical insurance of parents. Medical insurance premium paid for insuring the health of a person who is a senior citizen i.e. of age 60 years or more, qualifies for deduction under section 80D, subject to a maximum of ₹ 50,000. Hence, deduction of ₹ 33,000 is provided to Mr. Chandran, as his parents are senior citizens.
- (7) **It is only the payment of interest on education loan which qualifies for deduction under section 80E.** Deduction under section 80E is allowed in respect of interest on loan taken for education of children of the individual even if they are not dependent. Principal repayment of the education loan is not eligible for deduction under section 80E.

9. Mr. Vidyasagar, a resident individual aged 64, is a partner in Oscar Musicals & Co., a partnership firm. He also runs a wholesale business in medical products. The following details are made available for the year ended 31.3.2022:

Particulars	₹	₹
(i) Interest on capital received from Oscar Musicals & Co., at 15%		1,50,000
(ii) Interest from bank on fixed deposit (Net of TDS ₹ 1,500)		13,500
(iii) Income-tax refund received relating to assessment year 2021-22 including interest of ₹ 2,300		34,500
(iv) <u>Net profit from wholesale business</u>		5,60,000
Amounts debited include the following:		
➤ Depreciation as per books	34,000	
➤ Motor car expenses	40,000	
➤ Municipal taxes for the shop (For two half years; payment for one half year made on 12.6.2022 and for the other on 14.11.2022)	7,000	
➤ Salary to manager by way of a single cash payment	21,000	
(v) The WDV of the assets (as on 1.4.2021) used in above wholesale business is as under:		
Computers	1,20,000	
Motor car (20% used for personal use)	3,20,000	
(vi) LIP paid for major son	60,000	
PPF of his wife	70,000	

Compute the total income of the assessee for the assessment year 2022-23. The computation should show the proper heads of income. Also compute the WDV of the different blocks of assets as on 31.3.2022. Ignore Section 115BAC.

Answer:**Computation of total income of Mr. Vidyasagar for the A.Y. 2022-23**

Particulars	₹	₹
Profit and gains of business or profession		
Income from wholesale business		
Net profit as per books		5,60,000
Add: Depreciation as per books	34,000	
➤ Disallowance of municipal taxes paid for the second half-year under section 43B, since the same was paid after the due date of filing of return (₹ 7,000/2)	3,500	
➤ Disallowance under section 40A(3) in respect of salary paid in 21,000 cash since the same exceeds ₹ 10,000	21,000	
➤ 20% of car expenses for personal use	8,000	66,500
Less: Depreciation allowable (Note 1)		6,26,500
		<u>86,400</u>
		5,40,100
Income from firm		
Interest on capital from partnership firm (Note 2)		1,20,000
Income from other sources		6,60,100
Interest on bank fixed deposit (Gross)	15,000	
Interest on income-tax refund	2,300	17,300
Gross total income		6,77,400
Less: Deduction under Chapter VIA (Note 3)		1,30,000
Total Income		5,47,400

Notes:**Depreciation allowable under the Income-tax Rules, 1962**

		Opening WDV	Rate	Depreciation	Closing WDV
Block 1	Computers	1,20,000	40%	48,000	72,000
Block 2	Motor Car	3,20,000	15%		
				48,000	
	Less: 20% disallowance for personal use			9,600	
				<u>38,400</u>	2,81,600
				86,400	

- (1) Only to the extent the interest is allowed as deduction in the hands of the firm, the same is includible as business income in the hands of the partner. Maximum interest allowable as deduction in the hands of the firm is 12% p.a. It is assumed that the partnership deed provides for the same and hence is allowable to this extent in the hands of the firm.

Therefore, interest @12% p.a. amounting to ₹ 1,20,000 would be treated as the business income of Mr. Vidyasagar.

(2) Deduction under Chapter VI-A

Particulars	₹	₹
Under section 80C		
LIP for major son	60,000	
PPF paid in wife's name	70,000	
	1,30,000	
Since the maximum deduction under section 80C and 80CCE is ₹ 1,50,000.		
The entire amount of deduction would be allowed as deduction.		<u>1,30,000</u>
Total deduction		1,30,000

10. [Important] Bala murugan furnishes the following information for the year ended 31-03-2022:

Particulars	₹
Income from business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000
Speculation business income	1,00,000
Income by way of salary (computed)	60,000
Long term capital gain (Building)	70,000

Compute his total income, tax liability and advance tax obligations. Ignore Section 115BAC.

Answer:**Computation of total income of Bala murugan for the year ended 31.03.2022**

Particulars	₹	₹
Salaries	60,000	
Less: Loss from house property	(15,000)	
Net Salary (after set off of loss from house property)		45,000
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss set-off	(1,35,000)	
Net business loss to be set-off against long-term capital gain	(35,000)	
Capital Gains		
Long term capital gain	70,000	
Less: Business loss set-off	(35,000)	
Long term capital gain after set off of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		5,80,000

Computation of tax liability

Particulars	₹
On total income of ₹ 80,000 (excluding lottery winning)	Nil
On lottery winnings of ₹ 5,00,000 @ 30%	1,50,000
Add: Health & Education cess @4%	6,000
Total tax liability	1,56,000

IMP: The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of ₹ 6,000 (₹ 1,56,000 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Notes - IMP:

- (1) The basic exemption limit of ₹ 2,50,000 has to be first exhausted against salary income of ₹ 45,000. The unexhausted basic exemption limit of ₹ 2,05,000 can be adjusted against long-term capital gains of ₹ 35,000 as per section 112, but not against lottery winnings which are taxable at a flat rate of 30% under section 115BB.
- (2) The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining installments of advance tax which are due. Where no such installment is due, the entire tax should be paid by 31st March, 2022. The first proviso to section 234C(1) would be attracted only in case of non-deduction or short-deduction of tax at source under section 194B.

11. Mr. Rajiv, aged 50 years, a resident individual and practicing Chartered/Cost Accountant, furnishes you the receipts and payments account for the financial year 2021-22.

Receipts and Payments Account			
Receipts	₹	Payments	₹
Opening balance (1.4.2021)		Staff salary, bonus and stipend to articled clerks	21,50,000
Cash on hand and at Bank	12,000	Other administrative expenses	11,48,000
Fee from professional services	59,38,000	Office rent	30,000
Rent	50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Life insurance premium	24,000
		Motor car (acquired in Aug 2021)	4,25,000
		Medical insurance premium (for self and wife)	18,000
		Books bought (annual publications)	20,000
		Computer acquired on 1.11.2021 (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31.3.2022)	
		Cash on hand and at Bank	19,15,000
	62,50,000		62,50,000

Following further information is given to you:

- He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 1997-98.
- Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- The written down value of assets as on 1-4-2021 are given below:

Furniture & Fittings	= ₹ 60,000
Plant & Machinery (Air-conditioners, Photocopiers, etc.)	= ₹ 80,000
Computers	= ₹ 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the assessment year 2022-23. Mr. Rajiv has not opted for Section 115BAC.

Answer:

Computation of total income of Mr. Rajiv for the assessment year 2022-23

Particulars	₹	₹	₹
Income from house property			
Self-occupied			
Annual value	Nil		
Less: Deduction under section 24(b)			
Interest on housing loan			
50% of ₹ 88,000 = 44,000 but limited to	30,000		
Loss from self-occupied property		(30,000)	
Let out property			
Annual value (Rent receivable has been taken as the annual value in the absence of other information)	60,000		
Less: Deductions under section 24			
(a) 30% of Net Annual Value	18,000		
(b) Interest on housing loan (50% of ₹ 88,000)	44,000	62,000	(2,000)
Loss from house property			(32,000)

Profits and gains of business or profession

Fees from professional services		59,38,000	
Less: Expenses allowable as deduction			
Staff salary, bonus and stipend	21,50,000		
Other administrative expenses	11,48,000		
Office rent	30,000		
Motor car maintenance (10,000 x 4/5)	8,000		
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)		Nil	33,36,000
			26,02,000
Less: Depreciation			
Motor car ₹ 4,25,000 x 15% x 4/5	51,000		
Books being annual publications @ 40%	8,000		
Furniture and fittings @ 10% of ₹ 60,000	6,000		
Plant and machinery @ 15% of ₹ 80,000	12,000		
Computer @ 40% of ₹ 50,000	20,000		
Computer (New) ₹ 30,000 @ 40% x ½ thereon	6,000	103,000	25,24,500
Gross Total income			24,92,500
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total ₹ 1,44,000 is allowed as deduction since it is within the limit of ₹ 1,50,000		1,44,000	
Deduction under section 80D			
Medical insurance premium paid ₹ 18,000		18,000	1,62,000
Total income			23,30,500

12. State under which heads the following incomes are taxable:

- (i) Rental income in case of dealer in property
- (ii) Dividend on shares in case of a dealer in shares
- (iii) Salary by a partner from his partnership firm
- (iv) Rental income of machinery
- (v) Winnings from lotteries by a person having the same as business activity
- (vi) Salaries payable to a Member of Parliament
- (vii) Receipts without consideration
- (viii) In case of retirement, interest on employee's contribution if provident fund is unrecognized.

Answer:

	Particulars	Head of Income
(i)	Rental income in case of dealer in property	Income from house property
(ii)	Dividend on shares in case of a dealer in shares	Income from other sources
(iii)	Salary by partner from his partnership firm	Profit and gains of business or Income from other sources/PGBP
(iv)	Rental income of machinery (See Note below)	
(v)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(vi)	Salaries payable to a Member of Parliament	Income from other sources
(vii)	Receipts without consideration (Gift)	Income from other sources
(viii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

13. Dr. Shuba is a medical practitioner. Her age is 64 as on 1st January, 2022. The receipts and payments account of PY 2021-22 of her is as under:

To	₹	By	₹
Balance B/f	10,000	Purchase of commercial vehicle	4,00,000
Receipts from sale of medicine	2,50,000	Drawings	2,50,000
Consultation fee	50,000	Deposit in bank for 5 years	1,50,000
Visiting fee	2,00,000	Surgical instrument purchased before 30 Sep. 2021	50,000
Lecture fees	5,000	Installment of loan paid (including interest ₹ 22,333)	1,21,000
Family pension	2,80,000	Medical insurance premium	32,000
Savings bank interest	1,000	Installment of housing loan (Principal component ₹ 48,000)	1,08,000
Loan from bank	3,00,000	Advance tax paid	20,000
Share from HUF	50,000	Purchase of medicine	47,000
Agricultural income	1,00,000	Payment for medical journal	5,000
Income from lottery (net after deduction of TDS@30%)	35,000	Vehicle expenses	50,000
		Balance C/f	48,000
	12,81,000		12,81,000

Other relevant information is as under:

- (i) She resides in her own house which was constructed in 1998 with a loan from LIC Housing of ₹ 10,00,000 out of which ₹ 6,00,000 was still due. She got it refinanced from SBI on 01-04-2021 at the rate of 10%. One-fourth portion of the house is used for clinic purposes.
- (ii) She invested in term deposit ₹ 1,50,000 in Bank of Baroda on 01-07-2021 for a period of 5 years in the name of her minor daughter at 9% interest p.a.
- (iii) She purchased a commercial vehicle on 1st July 2021 at ₹ 4,00,000. A loan of ₹ 3,00,000 was taken to buy the vehicle. One fourth use of vehicle is estimated to be personal.
- (iv) She paid medical insurance premium for herself of ₹ 16,000 and for mother ₹16,000. Her mother is dependent on her.
- (v) She got her share from HUF's income of ₹ 50,000.

Compute total income of Dr. Shuba, ignoring depreciation on building. Dr. Shuba has not opted for Section 115BAC.

Answer:

Computation of total income of Dr. Shuba for A.Y. 2022-23

Particulars	₹	₹	₹	₹
Income from house property:				
Annual value of self-occupied house		Nil		
Less: Interest on loan [₹ 45,000, being 3/4 th of ₹ 60,000] (Restricted to ₹ 30,000)		(30,000)	(30,000)	
Income from profession:				
Sale of medicine	2,50,000			
Consultation fees	50,000			
Visiting fee	2,00,000			
Total income		5,00,000		
Less: Expenses				
Medicine purchases	47,000			
Medical journal	5,000			
Vehicle expenses (3/4 th)	37,500			
Interest on loan (3/4 th)	16,750			
Interest on housing loan (1/4 th)	15,000			
Depreciation				
Surgical instrument(15% of ₹ 50,000)	7,500			
Vehicle (3/4 th of 15% of ₹ 4,00,000)	45,000			
Total expenses		1,73,750	3,26,250	
Income from other sources				
Family Pension	2,80,000			
Less: Deduction under section 57(iia) [33 $\frac{1}{3}$ % or ₹ 15,000, whichever is lower]	15,000			
Lecture fees		5,000		
Savings bank interest		1,000		
Interest on bank FD in the name of minor daughter [₹ 1,50,000 × 9% × 9/12]	10,125			
Less : Exempt under Section 10(32)	1,500			
Winnings from lottery		8,625		
		50,000	3,29,625	6,25,875
Gross Total Income				
Less: Deductions under Chapter VI-A				
Under section 80C				
Repayment of housing loan (₹ 48,000 × ¾)			36,000	
Under section 80D				
Medical Insurance Premium Own (Senior Citizen, hence fully allowed)		16,000		
Mother (Senior Citizen, hence fully allowed since premium is less than ₹ 50,000)		16,000		
Under section 80TTA				
Interest on deposit in a saving account of bank		1,000		
Total deduction		1,000	33,000	69,000
Total income (Rounding off)				5,56,880

Notes:

1. Since the residential house was constructed before 01.04.1999, the deduction for interest is restricted to ₹ 30,000.
2. Since ¼th portion of house is used for business purposes, therefore, ¼th share of interest paid is deductible while computing business income.
3. Agricultural income is exempt under section 10(1) and share of income from HUF is exempt under section 10(2).
4. Term deposit of ₹ 1,50,000 in the name of minor daughter does not qualify for deduction under section 80C. However, principal repayment of housing loan (¾th) would qualify for deduction under section 80C. Therefore, the deduction under section 80C would be ₹ 36,000 (i.e. ¾th of ₹ 48,000).

5. Depreciation @ 15% has been provided on surgical instruments. It is also possible to assume that the surgical instruments mentioned in the question are life-saving medical equipment (for example, surgical laser) and therefore, eligible for depreciation @ 40%.
6. Depreciation on the portion of the house used for business purposes has not been provided since the written down value is not given in the question.

14. Mr. Raghu, Marketing Manager of KL Ltd., based at Mumbai furnishes you the following information for the year ended 31.03.2022:

Basic salary -	₹ 1,00,000 per month
Dearness allowance (Forming part of salary for retirement benefits) -	₹ 50,000 per month
Bonus -	2 months basic salary
Contribution of employer to Recognized Provident Fund -	15% of basic salary plus dearness allowance

Rent free unfurnished accommodation was provided by the company at Mumbai (accommodation owned by the company).

	Particulars	₹
(i)	Recognised Provident Fund contribution made by Raghu	1,50,000
(ii)	Health insurance premium for insurance of his wife's health	30,000
(iii)	Health insurance premium in respect of parents (senior citizens)	33,000
(iv)	Medical expenses of dependent brother with 'severe disability' (covered by Section 2(o) of National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999).	6,000
(v)	Interest on loan taken for education of his son studying B. Com (full-time) in a recognized college.	24,000
(vi)	Interest on loan taken for education of a student for whom Mr. Raghu is the legal guardian for pursuing B.Sc. (Physics) (full-time) in a recognized university.	20,000

Compute the total income of Mr. Raghu for the assessment year 2022-23. Ignore Section 115BAC.

Answer:

Computation of total income of Mr. Raghu for the A.Y. 2022-23

Particulars	₹	₹
Basic salary		12,00,000
Dearness allowance		6,00,000
Bonus		2,00,000
Employer contribution to recognized provident fund in excess of 12% is taxable (3% of ₹ 18,00,000)		54,000
Rent free accommodation @ 15% of ₹ 20 lakh (basic salary + dearness allowance + bonus)		3,00,000
Gross Salary		23,54,000
Less: Deduction u/s 16(ia)		50,000
Income from Salary		23,04,000
Gross Total Income		23,04,000
Less: Deductions under Chapter VI-A		
Section 80C		
Contribution to recognized provident fund ₹ 1,50,000 restricted to	1,50,000	
Section 80D – Health insurance premium		
Wife ₹ 30,000 restricted to	25,000	
Parents (Senior Citizens)	<u>33,000</u>	58,000
Section 80DD		
Medical treatment of dependent brother with severe disability (flat deduction irrespective of expenditure incurred)		1,25,000
Section 80E – Interest on loan taken for full-time education of		
- his son studying B.Com.	24,000	
- a student studying B.Sc. for whom he is the legal guardian	20,000	44,000
Total income		19,27,000

15. Mr. Dinesh Karthik, a resident individual aged 45, furnishes the following information pertaining to the year ended 31.3.2022:

(i) He is a partner in Badrinath & Co. He has received the following amounts from the firm:

Interest on capital at 15%:	₹ 3,00,000
Salary as working partner (at 1% of firm's sales) (allowed fully to the firm) :	₹ 90,000

(ii) He is engaged in a business of manufacturing wheat flour from wheat. The Profit and Loss account pertaining to this business (summarised form) is as under:

To	₹	By	₹
Salaries	1,20,000	Gross profit	12,50,000
Bonus	48,000	Interest on Bank FD	45,000
Car expenses	50,000	(Net of TDS 5,000)	
Machinery repairs	2,34,000	Agricultural income	60,000
Advance tax	70,000	Pension from LIC	
		Jeevan Dhara	24,000
Depreciation on:			
- Car	3,00,000		
- Machinery	1,25,000		
Net profit	4,32,000		
	13,79,000		13,79,000

Opening WDV of assets are as under:

Particulars	₹
Car	3,00,000
Machinery (Used during the year for 170 days)	6,50,000

Additions to machinery:

New purchased on 23.9.2021	2,00,000
New purchased on 12.11.2021	3,00,000
Old purchased on 12.4.2021	1,25,000

(All assets added during the year were put to use immediately after purchase)

Of the total bonus amount, ₹ 15,000 was paid on 11.10.2021

One-fifth of the car expenses are towards estimated personal use of the assessee.

(iii) In March, 2020, he had sold a house at Chennai. Arrears of rent relating to this house amounting to ₹ 75,000 was received in February, 2022

(iv) Details of his Savings and Investments are as under:

Particulars	₹
Life insurance premium for policy in the name of his major son employed in LMN Ltd. at a salary of ₹ 6 lacs p.a. (Sum assured ₹ 2,00,000) (Policy taken on 1.07.2014)	30,000
Contribution to Pension Fund of National Housing Bank	70,000
Medical Insurance premium for his father aged 70, who is not dependent on him	32,000

You are required to compute the total income of Mr. Dinesh Karthik for the AY 2022-23. Ignore Section 115BAC.

Answer:**Computation of total income of Mr. Dinesh Karthik for the A.Y. 2022-23**

Particulars		₹	₹
Income from house property			
Arrears of rent received in respect of the Chennai house taxable under section 25A	Note 2	75,000	
Less: Deduction @ 30%		<u>22,500</u>	52,500
Profits and gains of business or profession			
(a) Own business	Note 3		5,33,250
(b) Income from partnership firm (See Note 1)			
Interest on capital		2,40,000	
[As per section 28(v), chargeable in the hands of the partner only to the extent allowable as deduction in the firm's hand i.e. @12%]			
Salary of working partner		<u>90,000</u>	3,30,000
Income from other sources			
(a) LIC Jeevan Dhara pension		24,000	
(b) Interest from bank FD (gross)		<u>50,000</u>	74,000
Gross Total Income			9,89,750
Less: Deductions under Chapter VIA			
Section 80C			
Life insurance premium for policy in the name of major son qualifies for deduction even though he is not dependent on the assessee. However, the same has to be restricted to 10% of sum assured i.e. 10% of ₹ 2,00,000.		20,000	
Contribution to pension fund of National Housing Bank		<u>70,000</u>	90,000
Section 80D			
Mediclaim premium for father, a senior citizen (qualifies for deduction, even though the father is not dependent on the assessee)		32,000	1,22,000
Total Income			<u>8,67,750</u>

Notes:

- (1) The income by way of interest on capital and salary of Mr. Dinesh Karthik from the firm, Badrinath & Co., in which he is a partner, to the extent allowed as deduction in the hands of the firm under section 40(b), has to be included in the business income of the partner as per section 28(v). Accordingly, ₹ 3,30,000 [i.e., ₹ 90,000 (salary) + ₹ 2,40,000(interest@12%)] should be included in his business income.
- (2) As per Section 25A, any arrears of rent received will be chargeable to tax, after deducting a sum equal to 30% of such arrears, as income from house property in the year of receipt, whether or not the assessee remains the owner of the house property.

(3) Computation of income from own business

Particulars		₹	₹
Net profit as per profit and loss account			4,32,000
Less: Items credited to profit and loss account not treated as business income			
Interest on bank FD (net of TDS ₹ 5,000)		45,000	
Agricultural income		60,000	
Pension from LIC Jeevan Dhara		<u>24,000</u>	1,29,000
			<u>3,03,000</u>
Add: Items debited to profit and loss account to be disallowed/considered separately			
Advance tax		70,000	
Depreciation:			
Car		3,00,000	
Machinery		1,25,000	
Car expenses disallowed		<u>10,000</u>	5,05,000
			<u>8,08,000</u>

Less: Depreciation (See Working Note below)	<u>2,74,750</u>
Income from own business	5,33,250

Working Note**Computation of depreciation allowable under the Income-tax Act, 1961**

Particulars	₹	₹
On Car-		
15% on 3,00,000	45,000	
Less: 1/5 th for personal use	<u>9,000</u>	36,000
On Machinery-		
Opening WDV	6,50,000	
Additions during the year (Used for more than 180 days)	<u>3,25,000</u>	
Depreciation at 15% on	9,75,000	1,46,250
Additions during the year (used for less than 180 days)		
Hence, depreciation at 7.5% on	3,00,000	<u>22,500</u>
Total normal depreciation (A)		<u>2,04,750</u>
Where an asset acquired during the year is put to use for less than 180 days, 50% of the rate of depreciation is allowable. This restriction does not apply to assets acquired in an earlier year.		
Additional depreciation		
New machinery		
Used for more than 180 days at 20% ₹ 2,00,000	40,000	
Used for less than 180 days at 10% ₹ 3,00,000	<u>30,000</u>	
Total additional depreciation (B)		70,000
Total permissible depreciation (A) + (B)		2,74,750

16. From the following details, compute the total income of Siddhant of Delhi for the A.Y. 2022-23 (ignore Section 115BAC):

Particulars	₹
Salary including dearness allowance	3,35,000
Bonus	11,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600

Bills paid by the employer for gas, electricity and water provided free of cost at the above flat 11,000. Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2011, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000 @ 15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month.

The following particulars are relevant:

- Municipal taxes paid by Mr. Siddhant ₹ 4,300 (per annum)
- Insurance ₹ 860
- He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
- In the year 2012-13, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @19% per annum.
- Siddhant received a gift of ₹ 25,000 each from four friends.
- He contributed ₹ 50,000 to Public Provident Fund.

Answer:**Computation of total income and tax liability of Siddhant for the A.Y. 2022-23**

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		3,35,000
Bonus		11,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	<u>23,000</u>
Gross Salary		3,69,000
Less: Deduction u/s 16(ia)		<u>50,000</u>
Income from Salary		3,19,000

Income from house property

Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 × 12)

42,000

Less: Municipal taxes paid

4,300

Net Annual Value (NAV)

37,700

Less: Deductions under section 24

(i) 30% of NAV

₹ 11,310

(ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2]

₹ 24,000

35,310

2,390

Income from speculative business

Income from share speculation business

2,700

Less: Loss from cotton speculation business

4,200

Net Loss

1,500

[Net loss from speculative business has to be carried forward as it cannot be set off against any other head of income.]

Income from Other Sources

(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A)

3,800

Less: Exempt under section 10(32)

1,500

2,300

(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)

5,700

(iii) Gift received from four friends (taxable under section 56(2)(x)

as the aggregate amount received during the year exceeds ₹ 50,000)

1,00,000

1,08,000

Gross Total Income

4,29,390

Less: Deduction under section 80C

Contribution to Public Provident Fund

50,000

50,000

Total Income

3,79,390

Notes:

(1) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2022; and

(2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalised bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

17. Mr. Janak, working as Finance Manager in Thilagam Realty Ltd., Jaipur, retired from the company on 31.10.2021 at the age of 60. The following amounts were received from the employer from 1st April, 2021 to 31st October, 2021:

Basic Salary	₹ 30,000 p.m.
Dearness Allowance	₹ 20,000 p.m. (40% reckoned for superannuation benefits)
Ex-gratia (lump sum)	₹ 15,000

In addition to the above –

(a) The company had taken on lease a residential house at Jaipur, paying a lease rent of ₹ 9,000 p.m. Mr. Janak, who was paying to the company ₹ 6,000 p.m. towards aforesaid rent, vacated the said premises on 31.10.2021.

(b) The company had also provided to Mr. Janak a cooking range and micro-wave oven owned by it. The original cost of these assets was ₹ 40,000 and the written down value as on 1.4.2021 was ₹ 22,000.

(c) Mr. Janak has two sons. His second son was studying in a school run by the employer company. The education facility was provided free of cost. The cost of such education in a similar school is ₹ 1,800 p.m.

(d) The employer-company was contributing ₹ 7,000 p.m. to Central Government Pension Scheme. Mr. Janak contributed an equal amount.

(e) Professional tax paid by the employer ₹ 3,000.

(f) Subsequent to his retirement, Mr. Janak started his own business on 15-11-2021. The results of the said business from 15.11.2021 to 31.3.2022 were:

(i) Business loss (excluding current depreciation) ₹ 90,000

(ii) Current year's depreciation ₹ 60,000

- (g) Mr. Janak won a prize in a TV game show. He received a sum of ₹ 2,10,000 after deduction of tax at source to the tune of ₹ 90,000.
- (h) Mr. Janak furnishes the under-mentioned data relating to savings, investments and outgoings:
- Life insurance premium, with a private insurance company ₹ 30,000 for his son and ₹ 20,000 for his married daughter.
 - Medical insurance premium of ₹ 22,000 for himself and ₹ 26,000 for his father (aged 82), paid by credit card. His father is however not dependent on him.

You are required to compute the total income of Mr. Janak (showing clearly the computation under various heads of income) and tax payable by him for the assessment year 2022-23. Ignore Section 115BAC.

Answer:**Computation of total income of Mr. Janak for A.Y. 2022-23**

Particulars	₹	₹
Basic salary = ₹ 30,000 x 7	2,10,000	
Dearness Allowance = ₹ 20,000 x 7	1,40,000	
Ex-gratia	15,000	
Employers' contribution to Central Government Pension Scheme = ₹ 7,000 x 7	49,000	
Professional tax paid by employer	3,000	
Concessional accommodation (See Notes 1 & 2)	150	
Value of furniture (See Note 3)	2,333	
Value of concessional educational facility = (₹ 1,800 x 7) (See Note 4)	12,600	
Gross salary	4,32,083	
Less: Deduction under section 16		
Statutory Deduction	50,000	
Professional tax	3,000	
Net salary		3,79,083
Income from other sources		
Winnings from TV Game Show (₹ 2,10,000 + ₹ 90,000)		<u>3,00,000</u>
Gross Total Income		6,79,083
Less: Deductions under Chapter VI-A		
80C Life insurance premium (₹ 30,000 + ₹ 20,000)	50,000	
80CCD(1) (See Notes 5)		
Employee's contribution to pension scheme [No amount is allocated here]	<u>NIL</u>	
Total deduction under section 80C & 80CCD(1)	50,000	
80CCD (1B) Employee's contribution to pension scheme	49,000	
Employer's Contribution to pension scheme (to be restricted to 10% of salary) [Section 80CCD(2) [to be restricted to 10% of salary i.e. 10% of ₹ 2,66,000 (₹ 30,000 + ₹ 8,000) x 7] [See Note 5]	26,600	
80D (₹ 22,000 + ₹ 26,000) (See Note 6)	48,000	
Total Income		5,05,483
Total income (rounded off)		5,05,480

Computation of tax liability of Mr. Janak for the A.Y. 2022-23

Particulars	₹	₹
Tax @ 30% on winnings of ₹ 3,00,000 from game show		90,000
Tax on balance income of ₹ 2,05,480		<u>Nil</u>
		90,000
Add: Health & Education cess @ 4%		<u>3,600</u>
Total Tax Liability		93,600
Less: TDS		<u>90,000</u>
Net Tax Payable		3,600

Notes:

- (1) For computation of perquisite value of concessional accommodation, 40% of dearness allowance (i.e. ₹ 8,000) should be taken into consideration as forming part of salary, since the question clearly mentions that only 40% is to be reckoned for superannuation benefits. Therefore, salary for the purpose of perquisite valuation would be ₹ 2,81,000 [i.e., (₹ 30,000 + ₹ 8,000) x 7 + 15,000].
- (2) In a case where the accommodation is taken on lease or rent by the employer and provided to the employee, the value of perquisite would be lower of the actual amount of lease rental paid or payable by the employer [i.e. ₹ 63,000, being 9,000 x 7] and 15% of salary [i.e., ₹ 42,150, being 15% of ₹ 2,81,000]. This value (i.e. ₹ 42,150) would be reduced by the rent paid by the employee (i.e., ₹ 42,000, being 6,000 x 7). The value of concessional accommodation is ₹ 150 [i.e. ₹ 42,150 – ₹ 42,000].
- (3) The value of furniture owned by employer and provided to the employee is 10% p.a. of actual cost which amounts to ₹ 2,333 [i.e. 10% of 40,000 x 7/12]. Therefore, the value of furnished accommodation will be ₹ 2,483 (₹150 + ₹ 2,333) provided to the employee. It is also possible to consider the cooking range and micro-wave oven provided by employer to the employee as a perquisite on account of use of movable assets of the employer by the employee. Even it is so assumed, there would be no change in the answer since in such a case also, the perquisite value is 10% p.a. of actual cost.
- (4) In determining the value of perquisite resulting from the provision of free or concessional educational facilities, from a plain reading of the proviso to Rule 3(5), it is apparent that if the cost of education per child exceeds ₹ 1,000 per month, the entire cost will be taken as the value of the perquisite. Accordingly, the full amount of ₹ 1,800 per month is taxable as perquisite. In such a case, the value of the perquisite would be ₹ 12,600 (i.e. ₹ 1,800 x 7).

Note – An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 5,600.

- (5) The entire employer's contribution to Central Government Pension scheme should be included in salary and deduction under section 80CCD(2) should be restricted to 10% of salary. The employer's contribution to pension scheme would be outside the overall limit of ₹ 1,50,000 stipulated under section 80CCE. Also, the deduction for the employee's contribution to the pension scheme is taken first under section 80CCD(1B) which is also outside the limit of ₹ 150,000. Salary means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits.
- (6) The deduction for medical insurance premium of ₹ 26,000 paid for father is allowable in full under section 80D, as the maximum limit is ₹ 50,000, since his father is a senior citizen. Therefore, the total deduction under section 80D would be ₹ 22,000 (for self) + ₹ 26,000 (for father) = ₹ 48,000.
- (7) Winnings from TV game show is chargeable at a flat rate of 30% under section 115BB. No loss can be set-off against such income. Therefore, business loss cannot be set-off against such income.
- (8) As per section 71(2A), business loss cannot be set-off against salary income. Section 71(2A) provides that where the net result of the computation under the head "Profits and gains of business or profession" is a loss and the assessee has income chargeable under the head "Salaries", the assessee shall not be entitled to have such loss set-off against such income. **Therefore, both business loss and current depreciation cannot be set-off against salary income.**

18. Mr. Mahesh, a production manager working in ABC Ltd., New Delhi, receives the following emoluments during the previous year 2021-22:

	₹		₹
Basic salary	1,75,000	Bonus	8,000
D.A. (not forming part of salary)	1,80,000	Medical allowance	5,000
Commission on extra production	12,000	Special allowance	18,000

Education Allowance (including allowance for hostel expenditure) for two sons who are engineering students at Mumbai - ₹ 16,000.

(i) His employer has provided rent free house to him in New Delhi. The house is owned by the employer.

(ii) Electricity bills paid by ABC Ltd. for him during the previous year are of ₹ 11,500.

(iii) On 1.1.2022, his employer company has given him a CD player for domestic use and a laptop for office and personal use. Ownership of both the assets have not been transferred. The cost of CD player is ₹ 20,000 and that of laptop is ₹ 40,000.

(iv) His investments during the previous year are:

(1) Notified mutual fund ₹ 25,000

(2) PPF ₹ 15,000

(v) He has paid tuition fees of his sons on 17.12.2021 of ₹ 60,000.

(vi) He has deposited ₹ 10,000 in Five Year Time Deposit Scheme in Post Office on 25.3.2022.

(vii) His agricultural income during the year is ₹ 45,000.

(viii) He has received gift of ₹ 25,000 from his grandfather on 10.6.2021.

(ix) He has gifted his car to his wife on 15.5.2021. She has earned income of ₹ 40,000 from the business of hiring the same during the previous year.

Compute the total income and tax payable of Mr. Mahesh for the A.Y. 2022-23. Ignore Section 115BAC.

Answer:

Computation of total income of Mr. Mahesh for the A.Y. 2022-23

Particulars	₹
Income from salary (as per note 3)	4,00,053
Business Income (assuming that his wife carries on the business of hiring of cars) [Income of wife from hiring of car clubbed under Section 64(1)(iv)]	40,000
Gross Total Income	4,40,053
Less: Deduction under section 80C (as per note 5)	1,10,000
Total income	3,30,053
Total income (rounded off)	3,30,050

Computation of tax liability of Mr. Mahesh for the A.Y. 2022-23

Step 1	₹	₹
Add: Agricultural income and Non-agricultural income (₹ 45,000 + ₹ 3,40,050)		
Tax on ₹ 3,75,050	6,253	
Step 2		
Add: Basic exemption limit to agricultural income (₹ 2,50,000 + ₹ 45,000)		
Tax on ₹ 2,95,000	2,250	
Step 3		
Tax on non-agricultural income (Tax under step 1 – Tax under step 2) (₹ 6,253 – ₹ 2,250)		4,003
Less: Rebate under Section 87A		4,003
Total tax liability		NIL

Notes:**1. Valuation of rent free house**

Particulars	₹
Basic salary	1,75,000
D.A. (not to be considered as it is not forming part of salary)	Nil
Commission on extra production	12,000
Bonus	8,000
Special allowance	18,000
Education allowance (See Note 4)	6,400
Medical allowance	5,000
Salary for the purpose of valuation of rent-free house	<u>2,24,400</u>
Value of rent-free house = 15% of ₹ 2,24,400	33,660

2. Valuation of perquisite of CD Player given for use by the employee

Taxable value of this perquisite is 10% p.a. of cost of the CD player w.e.f. 1.1.2022 (i.e. for 90 days)
 10% of ₹ 20,000 = 2,000 x 90/365 = ₹ 493
 Provision of laptop by the employer is a tax-free perquisite.

3. Income from salary

Particulars	₹	₹
Basic pay	1,75,000	
D.A.	1,80,000	
Bonus	8,000	
Commission	12,000	
Special Allowance	18,000	
Taxable education allowance (See Note-4 below)	6,400	
Medical Allowance	5,000	
Total		4,04,400

Add:**Taxable perquisites :**

(1) Rent free accommodation (Note 1)	33,660	
(2) Electricity Bill paid by employer	11,500	
(3) CD Player given by employer (Note 2)	493	<u>45,653</u>
Taxable salary		4,50,053
Less: Deduction u/s 16(ia)		<u>50,000</u>
Income from Salary		4,00,053

4. Education allowance exempt under section 10(14)

Education allowance of ₹ 100 per month per child for a maximum of 2 children plus hostel allowance of ₹ 300 per month per child for a maximum of 2 children is exempt.
 i.e. (₹ 100×2×12) + (₹ 300×2×12) = ₹ 2,400 + ₹ 7,200 = ₹ 9,600

Therefore, taxable education allowance would be ₹ 16,000 – ₹ 9,600 = ₹ 6,400.

5. Investments/payments deductible under section 80C

Particulars	₹
Investment in notified mutual fund	25,000
Investment in PPF	15,000
Investment in 5 year Time Deposit in Post Office	10,000
Tuition fees of children (assumed to be paid to an eligible educational institution – hence qualifies for deduction under section 80C)	<u>60,000</u>
	<u>1,10,000</u>

However, the total deduction under section 80C cannot exceed ₹ 1,50,000. This restriction is contained in section 80CCE.

Therefore, the permissible deduction under section 80C would be ₹ 1,10,000

6. Taxability of gift received from grandfather

Gift from a relative is not taxable under section 56(2)(x). Grandfather is a relative as per the definition of “relative” given in the Explanation to section 56(2)(x) and hence ₹ 25,000, being gift received from grandfather, is not taxable.

19. Rajat is a Chartered/Cost Accountant in practice. He maintains his accounts on cash basis. He is a Resident and ordinarily resident in India. His income and expenditure account for the year ended March 31, 2022 reads as follows:

Expenditure	₹	Income	₹	₹
Salary to staff	15,25,000	<u>Fees earned:</u>		
Stipend to trainee	3,18,000	Audit	26,65,800	
Assistants		Taxation services	14,68,600	
Incentive to trainee	5,000	Consultancy	<u>13,82,000</u>	55,16,400
Assistants		Dividend on shares of Indian companies (gross)		9,635
Office rent	13,24,000	Income from Unit Trust of India (Gross)		6,600
Printing and stationery	6,600	Profit on sale of shares (STT paid)		15,620
Meeting, seminar and Conference	10,38,600	Honorarium received from various institutions for valuation of answer papers		16,350
Repairs, maintenance and petrol of car	22,400	Rent received from residential flat let out		84,000
Subscription and Periodicals	2,15,000			
Postage, telegram and fax	2,32,500			
Depreciation	29,500			
Travelling expenses	55,000			
Municipal tax paid in respect of house property	1,000			
Net profit	8,76,005			
	16,48,605			56,48,605

Other information:

- The total travelling expenses incurred on foreign tour was ₹ 20,000 which was within the RBI norms.
- Incentive to articled assistants represent amount paid to two articled assistants for passing examination at first attempt.
- Repairs and maintenance of car includes ₹ 1,600 for the period from 1.10.2021 to 30.09.2022.
- Salary include ₹ 30,000 to a computer specialist in cash for assisting Mr. Rajat in one professional assignment.
- ₹ 1,500, interest on loan paid to LIC on the security of his Life Insurance Policy and utilised for repair of computer, has been debited to the drawing account of Mr. Rajat.
- Medical Insurance Premium on the health of:

Particulars	₹	Mode of Payment
Self	10,000	By Cheque
Dependent brother	5,000	By Cheque
Major son dependent on him	3,000	By Cash
Minor married daughter	2,000	By Cheque
Wife dependent on assessee	5,000	By Cheque

- Shares sold were held for 10 months before sale.
- Rajat paid life membership subscription of ₹ 1,000 to Qualified Accountants Benevolent Fund. The amount was debited to his drawings account. The Qualified Accountants Benevolent Fund is an approved fund under section 80G of Income-tax, 1961.
- Depreciation debited to income and expenditure account is as per the rates of Income tax Rules, 1962.

Compute the total income and tax payable of Rajat for the Assessment year 2022-23. Ignore Section 115BAC.

Answer:**Computation of Total Income of Mr. Rajat for Assessment Year 2022-23**

Particulars	W.N.	₹
Income from House Property	1	58,100
Profit and gains of Business or Profession	2	7,73,300
Short-term capital gains	3	15,620
Income from other sources	4	32,585
Gross Total Income		8,79,605
Less: Deduction under Chapter VI-A	5	15,500
Total Income		8,64,105
		8,64,110
Tax on total income		
Total Income		8,64,110
Less: Short-term capital gains (See Note 9 below)		15,620
Normal Income		8,48,490
Tax on normal income		82,198
Tax on short-term capital gains @ 15%		2,343
Tax before cess		84,541
Add: Health & Education cess @ 4%		3,382
Total tax liability		87,923
Total tax liability (rounded off)		87,920

Notes:**(1) Income from House Property**

	₹
Gross Annual Value	84,000
Less: Municipal taxes paid by owner	1,000
Net Annual Value (NAV)	83,000
Less: Deduction under section 24 @ 30% of NAV	24,900
	58,100

Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head “Profits & Gains of Business or Profession”

Net profit as per Profit & Loss Account 8,76,005

Add: Expenses debited to the Profit & Loss Account but not allowable

(i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds ₹ 10,000	30,000	
(ii) Municipal Taxes paid in respect of residential flat let out	1,000	31,000
		9,07,005

Less: Expenses allowable but not debited to profit and loss account

Interest paid on loan taken from LIC used for repair of computer	1,500
	9,05,505

Less: Income credited to Profit & Loss Account but not taxable under this head:

➤ Dividend on shares of Indian companies	9,635	
➤ Income from UTI	6,600	
➤ Profit on sale of shares	15,620	
➤ Honorarium for valuation of answer papers	16,350	
➤ Rent received from letting out of residential flat	84,000	1,32,205
		7,73,300

(3) Capital gains:

Short term capital gain on sale of shares 15,620

(4) Income from other sources:

Dividend on shares of Indian companies	9,635
Income from UTI	6,600
Honorarium for valuation of answer papers	16,350
	32,585

(5) Deductions under Chapter VI-A :**Deduction under section 80D (Medical Insurance Premium)**

Policy holder	Amount of Premium (₹)	Amt. eligible for deduction (₹)
Self	10,000	10,000
Dependent brother	5,000	Nil
Major son dependent on him	3,000	Nil
Minor married daughter	2,000	Nil
Wife dependent on assessee	5,000	5,000
		15,000

Amount of deduction is restricted to ₹ 15,000

15,000

Deduction under section 80G (Donation)

Donation to Benevolent Fund (50% of ₹ 1,000)

500

Total deduction under Chapter VI-A

15,500

Note: Premium paid to insure the health of brother is not eligible for deduction under section 80D. Premium paid to insure the health of son is not eligible for deduction since payment is made in cash. Premium paid to insure the health of minor married daughter is not eligible for deduction as she is not dependent on Mr. Rajat.

- (6) ₹ 20,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with his professional work. Therefore, it requires no further treatment.
- (7) Incentive to trainee assistants passing examination in their first attempt is deductible under section 37(1).
- (8) Repairs and maintenance paid in advance for the period 1.4.2022 to 30.9.2022 i.e. for 6 months amounting to ₹ 800 will be allowed since Mr. Rajat is following the cash system of accounting.
- (9) Since securities transaction tax has been paid on the shares and the period of holding of these shares is less than 12 months, the profit arising there from is a short-term capital gain chargeable to tax at 15% under section 111A.
- (10) Since depreciation debited to income and expenditure account is as per the Income-tax Rules, 1962, no adjustment for the same has been made.

20. Dr. Sparsh Kumar is running a clinic. His Income and Expenditure account for the year ending 31st March, 2022 is given below:

Expenditure	₹	Income	₹
To Staff Salary	14,30,000	By Fees Receipts	52,63,600
To Consumables	9,250	By Dividend from Indian Companies (Gross)	9,500
To Medicine consumed	23,64,800	By Winning from Lotteries (Net of TDS of ₹ 12,000)	28,000
To Depreciation	91,000	By Income-tax refund	2,750
To Administrative Expenses	11,46,000		
To Donation to Prime Minister's Cares Fund	15,000		
To Excess of Income over expenditure	2,47,800		
Total	53,03,850	Total	53,03,850

- (a) Depreciation in respect of all assets has been ascertained at ₹ 50,000 as per Income-tax Rules, 1962.
- (b) Medicines consumed include medicine of (cost) ₹ 16,000 used for his family.
- (c) Fees Receipts include ₹ 14,000 honorarium for valuing medical examination answer books.
- (d) He has also received ₹ 90,000 on account of Agricultural Income which had not been included in the above Income and Expenditure Account.
- (e) He has also received ₹ 57,860 on maturity of one LIC Policy, not included in the above Income and Expenditure Account.
- (f) He received ₹ 6,000 per month as salary from a City Care Centre. This has not been included in the 'Fees Receipts' credited to Income and Expenditure Account.
- (g) He has paid premium of ₹ 1,00,000 for another LIC Policy which was taken on 1.04.2013 (sum assured ₹ 5,00,000).
- (h) He has paid ₹ 2,500 for purchase of lottery tickets.
- (i) Donation to PM Cares Fund has been made by way of an account payee cheque.
- (j) He deposited ₹ 90,000 in PPF.

From the above, compute the income and tax payable of Dr. Sparsh Kumar for the A.Y. 2022-23. Ignore Section 115BAC.

Answer:**Computation of Total Income and tax liability of Dr. Sparsh Kumar for the A.Y. 2022-23**

Particulars	₹
Income from Salary (Working Note - 1)	70,000
Income from Business (Working Note - 2)	2,65,550
Income from Other sources (Working Note - 3)	63,500
Gross Total Income	3,99,050
Less: Deduction under Chapter VI-A (Working Note - 4)	1,55,000
Total Income	2,44,050

Working Notes:**1. Computation of salary income**

Particulars	₹
Gross Salary (₹ 10,000×12)	120,000
Less: Deduction under section 16	50,000
Net Salary	70,000

2. Computation of income under the head “Profits and gains of business or profession”

Particulars	₹	₹
Net Income as per Income and Expenditure Account		2,47,800
Add: Expenses disallowed:		
Depreciation (₹ 91,000 – ₹ 50,000)	41,000	
Cost of medicine for self-use	16,000	
Donation to Prime Minister’s Relief Fund	15,000	72,000
		3,19,800
Less: Dividend from Indian companies	9,500	
Income-tax refund	2,750	
Winning from Lotteries	28,000	
Honorarium for valuing answer books	14,000	54,250
		2,65,550

3. Computation of income under the head “Income from other sources”

Particulars	₹	₹
Dividend from Indian Companies (gross)		9,500
Honorarium for valuing answer books		14,000
Winning from Lotteries (Net)	28,000	
Add: TDS	12,000	40,000
Income from other sources		63,500

Note: As per Section 58(4), no expense or deduction is allowable in respect of winnings from lotteries.

4. Computation of deduction under Chapter VI-A

Particulars	₹
U/s 80C Life Insurance Premium (maximum 10% of sum assured)	50,000
PPF	90,000
U/s 80G Donation to Prime Minister’s CARES Fund [See Note below]	15,000
Total deduction under Chapter VI-A	1,55,000

Note –The donation made to the Prime Minister’s CARES Fund qualifies for 100% deduction under section 80G.

- 5.** Any sum received under a life insurance policy is wholly exempt from tax under section 10(10D) subject to satisfaction of conditions given thereunder. In this case, it is presumed that all the conditions are satisfied.

TOTAL INCOME & TAX COMPUTATION – SET B**19th Edition Series - Assessment Year 2022-23****Total 10 Practical Questions**

1. **VERY IMP:** Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 02.03.2021 and came to India for the first time on 16.03.2021. She left for USA on 19.9.2021. She returned to India again on 27.03.2022. While in India, she had purchased a show room in Mumbai on 22.04.2021, which was leased out to a company on a rent of ₹ 25,000 p.m. from 1.05.2021. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 up-to 31.03.2022. She had received the following cash gifts from her relatives and friends during 1.4.2021 to 31.3.2022:

➤ From parents of husband	₹ 51,000
➤ From married sister of husband	₹ 11,000
➤ From two very close friends of her husband, ₹ 1,51,000 and ₹ 21,000	₹ 1,72,000

- (a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax payable on such income for the Assessment Year 2022-23.
- (b) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is 18,00,000 and she is not liable to tax in USA?

Answer:

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

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If an individual satisfies any one of the conditions mentioned above, he is a resident.

Therefore, the residential status of Miss Charlie, an American National, for A.Y. 2022-23 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2022-23 i.e. P.Y. 2021-22 and in the preceding four assessment years.

Her stay in India during the previous year 2021-22 and in the preceding four years are as under:

01.04.2021 to 19.09.2021	172 days
27.03.2022 to 31.03.2022	5 days
Total	177 days
Four preceding previous years	
P.Y. 2020-21 [1.4.2020 to 31.3.2021]	16 days
P.Y. 2019-20 [1.4.2019 to 31.3.2020]	Nil
P.Y. 2018-19 [1.4.2018 to 31.3.2019]	Nil
P.Y. 2017-18 [1.4.2017 to 31.3.2018]	Nil
Total	16 days

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 16 days. **Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2022-23.**

Note: Section 6(1A) has no implication here.

Computation of total income of Miss Charlie for the A.Y. 2022-23

Particulars	₹	₹
Income from house property		
Gross Annual Value [₹ 25,000 x 11] (See Note 1 below) Show room located in Mumbai remained on rent from 01.05.2021 to 31.03.2022 @ ₹ 25,000/- p.m.	2,75,000	
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	2,75,000	
Less: Deduction under section 24		
30% of NAV	82,500	
Interest on loan	97,500	
	1,80,000	95,000
Income from other sources		
Gifts received from non-relatives is chargeable to tax as per section 56(2)(x) if the aggregate value of such gifts exceeds ₹ 50,000.		
➤ ₹ 50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.	Nil	
➤ ₹ 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil	
➤ Gift received from two friends of husband ₹ 1,51,000 and ₹ 21,000 aggregating to ₹ 1,72,000 is taxable under section 56(2)(x) since the aggregate of ₹ 1,72,000 exceeds ₹ 50,000. (See Note 2 below)	1,72,000	1,72,000
Total income		2,67,000

Computation of tax payable by Miss Charlie (non-resident) for the A.Y. 2022-23

Particulars	₹
Tax on total income of ₹ 2,67,000	850
Add: Health and Education cess @4%	34
Total tax payable	884
Total tax payable (rounded off)	880

Notes:

- Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
- If the aggregate value of taxable gifts received from non-relatives exceed ₹ 50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of ₹ 1,72,000 is taxable under section 56(2)(x).
- Since Miss Charlie is a non-resident for the A.Y. 2022-23, rebate under section 87A would not be available to her, even though her total income does not exceed ₹ 5 lacs.
- The tax liability of Miss Charlie would be the same even if she opts to pay tax as per section 115BAC, since she would be eligible for deduction under section 24(b), for interest on housing loan in respect of let out property under regular provisions as well as under section 115BAC of the Income- tax Act, 1961.

Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000

If she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 (₹ 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the previous year and 365 days during the four immediately preceding previous years would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the P.Y. 2021-22 but the period of her stay in India during the four immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) **would not be a Resident in India.**

Further, **since she is not a citizen of India**, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 and she is not liable to pay tax in USA.

Therefore, her residential status would be non-resident in India for the previous year 2021-22.

2. Dr. Niranjana, a resident individual, aged 60 years is running a clinic. Her Income and Expenditure Account for the year ending March 31st, 2022 is as under:

Expenditure		₹	Income		₹
To	Medicine consumed	35,38,400	By	Consultation and medical charges	58,85,850
To	Staff salary	13,80,000	By	Income-tax refund (principal ₹ 5,000, interest ₹ 450)	5,450
To	Clinic consumables	1,10,000	By	Dividend from units of UTI (Gross)	10,500
To	Rent paid	90,000	By	Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To	Administrative expenses	2,55,000	By	Rent	27,000
To	Amount paid to scientific research association approved under section 35	1,50,000			
To	Net profit	4,40,400			
		59,63,800			59,63,800

- (i) Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.
- (ii) Clinic equipments are:
- | | | |
|-----------|---------------------------|--------------|
| 1.4.2021 | Opening W.D.V. | - ₹ 5,00,000 |
| 7.12.2021 | Acquired (cost) by cheque | - ₹ 2,00,000 |
- (iii) Rent received relates to property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2021, has been included in "administrative expenses".
- (iv) She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".
- (v) Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the year 2021-22.
- (vi) She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.
- (vii) An amount of ₹ 28,000 has also been paid by cheque on 27th March, 2022 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2022-23 under the regular provisions of the Income-tax Act, 1961, assuming that she has not opted for to pay tax under section 115BAC.

Answer:

Computation of total income and tax liability of Dr. Niranjana for A.Y. 2022-23

	Particulars	₹	₹	₹
I	Income from Salary Basic Salary (₹ 7,500 x 12) Less: Standard deduction under section 16(ia)		90,000 50,000	40,000
II	Income from house property Gross Annual Value (GAV) Less : Municipal taxes paid Net Annual Value (NAV) Less: Deduction u/s 24 @ 30% of ₹ 25,000		27,000 2,000 25,000 7,500	17,500
III	Income from profession Net profit as per Income and Expenditure account Less: Items of income to be treated separately (a) Rent received (b) Dividend from units of UTI (c) Winning from game show on T.V. (net of TDS) (d) Income tax refund		4,40,400 27,000 10,500 35,000 5,450	
	Less: Allowable expenditure Depreciation on Clinic equipments on ₹ 5,00,000 @ 15% on ₹ 2,00,000 @ 7.5% (On equipments acquired during the year in December 2020, she is entitled to depreciation @50% of normal depreciation, since the same are put to use for less than 180 days during the year)	75,000 15,000	90,000	
	100% deduction is allowable in respect of the amount paid to scientific research association allowable, since whole of the amount is already debited to Income & Expenditure A/c, no further adjustment is required.		-	
	Add: Items of expenditure not allowable while computing business income (i) Rent for her residential accommodation included in Income and Expenditure A/c (ii) Municipal tax paid relating to residential house at Surat included in administrative expenses	30,000 2,000	2,72,450 32,000	3,04,450
IV	Income from other sources (a) Interest on income-tax refund (b) Dividend from UTI (gross) (c) Winnings from the game show on T.V. (₹ 35,000 + ₹ 15,000) Gross Total Income		450 10,500 50,000	60,950 4,22,900
	Less: Deductions under Chapter VI A: (a) Section 80C - Tuition fee paid to university for full time education of her daughter		1,00,000	
	(b) Section 80D - Medical insurance premium (fully allowed since she is a senior citizen)		28,000	
	(c) Section 80E - Interest on loan taken for higher education is deductible		55,000	1,83,000
	Total income			2,39,900

Notes:

- (i) The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- (ii) Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (₹ 35,000 + ₹ 15,000). Thereafter, while computing tax liability, TDS of ₹ 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.
- (iii) **Imp:** Dr. Niranjana would not be eligible for deduction u/s 80GG, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

3. **[IMPORTANT – BASED ON SECTION 115BAC]** Ms. Purvi, aged 55 years, is a Chartered/Cost Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2022 reads as follows:

Expenditure	(₹)	Income	(₹)
Salary to staff	15,50,000	Fees earned:	
Stipend to articled assistants	1,37,000	Audit	27,88,000
Incentive to articled assistants	13,000	Taxation services	15,40,300
Office rent		Consultancy	12,70,000
Printing and stationery	12,24,000	Dividend on shares of Indian companies [Gross]	10,524
Meeting, seminar and Conference	12,22,000	Income from UTI [Gross]	7,600
Purchase of car (for official use)	31,600	Honorarium received from various Institutions for valuation of answer papers	15,800
Repair, maintenance and petrol of car	80,000	Rent received From residential flat let out	85,600
Travelling expenses	4,000		
Municipal tax paid in respect of house property	5,25,000		
Net Profit	3,000		
	9,28,224		
	57,17,824		57,17,824

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is ₹ 10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing inter Examination at first attempt.
- (iv) Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2021 to 30-09-2022.
- (v) Salary includes ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- (vi) The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.
- (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000, respectively, paid in cash.
- (viii) She invested an amount of ₹ 10,000 in National Saving Certificate.
- (ix) She has paid ₹ 70,000 towards advance tax during the P.Y. 2021-22.
- (x) TDS is applicable on Dividend income & Income from UTI.

Compute the total income and tax payable of Ms. Purvi for the assessment year 2022-23.

Answer:

Computation of total income and tax liability of Ms. Purvi for the A.Y. 2022-23

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		33,924
Gross Total Income		10,11,944
Less: Deductions under Chapter VI-A (See Working Note 4)		10,000
Total Income		10,01,944
Tax on total income		
Up-to ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,001 - ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,001 - ₹10,01,940 @ 30%	582	1,13,082
Add: Health and Education cess @ 4%		4,523
Total tax liability		1,17,605
Less: Advance tax paid		70,000
Less: Tax deducted at source on dividend income from an Indian Company u/s 194	1,052	
Tax deducted at source on income from UTI u/s 194K	760	1,812
Tax Payable		45,793
Tax Payable (rounded off)		45,790

Computation of tax payable in accordance with the provisions of section 115BAC

Particulars	₹	₹
Gross Total Income		10,11,944
[Income under the “Income from house property” “Profits and gains from business or profession” and “Income from other sources” would remain the same even if Ms. Purvi opts for special provisions under section 115BAC, since deduction claimed by her under these heads is allowable even under section 115BAC]		
Less: Deductions under Chapter VI-A [No deduction is allowable under Chapter VI-A, by virtue of section 115BAC(2)]		Nil
Total Income		10,11,944
Total Income (rounded off)		10,11,940
Tax on total income		
Up-to ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @5%	12,500	
5,00,000 - ₹ 7,50,000 @10%	25,000	
₹ 7,50,000 - ₹ 10,00,000 @15%	37,500	
10,00,000 – 10,11,940 @ 20%	2,388	77,388
Add: Health and Education cess @ 4%		3,096
Total tax liability		80,484
Less: Advance tax paid		70,000
Less: Tax deducted at source on dividend income from Indian Companies u/s 194	1,052	

Tax deducted at source on income from UTI u/s 194K	760	1,812
Tax Payable		8,672
Tax Payable (rounded off)		8,670

Since tax payable as per the provisions of section 115BAC is lower than the tax payable under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to opt for section 115BAC. She has to exercise this option on or before the due date of furnishing the return of income i.e., 31st October 2022, in her case since she is liable to get her books of account audited. Further, since she is having income from business or profession during the previous year 2021-22, if she opts for section 115BAC for this previous year, the said provisions would apply for subsequent assessment years as well.

Working Notes:**(1) Income from House Property**

Particulars	₹	₹
Gross Annual Value under section 23(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction under section 24 @ 30% of NAV	24,780	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head “Profits & Gains of Business or Profession”

Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds ₹ 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(iii) Municipal Taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of Indian companies	10,524	
(ii) Income from UTI	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
Less: Depreciation on motor car @15% (See Note (i) below)		12,000
		9,20,200

Notes:

- (i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

- (ii) Incentive to articled assistants for passing inter examination in their first attempt is deductible under section 37(1).
- (iii) Repairs and maintenance paid in advance for the period 1.4.2022 to 30.9.2022 i.e. for 6 months amounting to ₹ 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	₹
Dividend on shares of X Ltd., an Indian company (taxable in the hands of shareholders)	10,524
Income from UTI (taxable in the hands of unit holders)	7,600
Honorarium for valuation of answer papers	15,800
	33,924

(4) Deduction under Chapter VI-A :

Particulars	₹
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	Nil
Total deduction under Chapter VI-A	10,000

Notes:

- (i) Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

- 4. Important – BASED ON SECTION 115BAC:** From the following details, compute the total income and tax liability of Siddhant, aged 31 years, of Delhi both as per the regular provisions of the Income-tax Act, 1961 and as per section 115BAC for the A.Y. 2022-23. Advise Mr. Siddhant whether he would opt for section 115BAC:

Particulars	₹
Salary including dearness allowance	3,35,000
Bonus	11,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2014, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000 @ 15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years.

The rent payable by the bank was ₹ 3,500 per month. The following Particulars are relevant:

- (a) Municipal taxes paid by Mr. Siddhant ₹ 4,300 (per annum)
- (b) House Insurance ₹ 860
- (c) He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
- (d) In the year 2015-16, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @ 19% per annum.
- (e) Siddhant received a gift of ₹ 30,000 each from four friends.
- (f) He contributed ₹ 50,000 to Public Provident Fund.

Answer:

Computation of total income and tax liability of Siddhant for the A.Y. 2022-23

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		3,35,000
Bonus		11,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
Gross Salary		3,69,000
Less: Standard deduction under section 16(ia)		50,000
		3,19,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 × 12)	42,000	
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 24		
(i) 30% of NAV	₹ 11,310	
(ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2]	₹ 24,000	
	35,310	2,390
Income from speculative business		
Income from share speculation business	2,700	
Less: Loss from cotton speculation business	4,200	
Net Loss	1,500	
Net loss from speculative business has to be carried forward as it cannot be set off against any other head of income.		
Income from Other Sources		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A)	3,800	
Less: Exempt under section 10(32)	1,500	
	2,300	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
(iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)	1,20,000	1,28,000
Gross Total Income		4,49,390
Less: Deduction under section 80C		
Contribution to Public Provident Fund		50,000
Total Income		3,99,390

Particulars	₹
Tax on total income	7,470
Less: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000	7,470
Tax liability	Nil

Computation of total income and tax liability of Siddhant in accordance with the provisions of section 115BAC for the A.Y. 2022-23

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		3,35,000
Bonus		11,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		3,69,000
Less: Standard deduction under section allowable as per Section 16(ia) [Not available]		Nil
		3,69,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 × 12)	42,000	
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 24		
(i) 30% of NAV	₹ 11,310	
(ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2]	₹ 24,000	
	35,310	2,390
Income from speculative business		
Income from share speculation business	2,700	
Less: Loss from cotton speculation business	4,200	
Net Loss	1,500	
Net loss from speculative business has to be carried forward as it cannot be set off against any other head of income.		
Income from Other Sources		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) [Exemption under section 10(32) would not be available]	3,800	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
(iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)	1,20,000	1,29,500
Gross Total Income		5,00,890
Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]		Nil
Total Income		5,00,890

Particulars	₹
Tax on total income	12,589
Less: Rebate u/s 87A (not available, since total income exceeds ₹ 5,00,000)	Nil
Add: Health and education cess @4%	504
	13,093
Tax liability	13,093
Tax liability (rounded off)	13,090

Since Mr. Siddhant is not liable to pay any tax as per the regular provisions of the Income-tax Act, 1961, it would be beneficial for him to not opt for section 115BAC for A.Y. 2022-23.

Notes:

- (1) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2022;
- (2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.
- (3) **Alternatively, computation total income as per the special provisions of section 115BAC can also be presented as follows:**

Particulars	₹	₹
Total Income as per regular provisions of the Income-tax Act		3,99,390
Add: (i) Standard deduction u/s 16(ia) as it would not be allowable under the special provisions	50,000	
(ii) Exemption under section 10(32) as it would not be available under the special provisions	1,500	
(iii) Deduction under section 80C as no deduction under Chapter VI-A would be allowed under the special provisions	50,000	1,01,500
Total Income		5,00,890

5. Raman working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2022:

- **Basic Salary** ₹15,000 p.m.
- **DA (50% of it is meant for retirement benefits)** ₹12,000 p.m.
- **Commission as a percentage of turnover of the Company** 0.5 %
- **Turnover of the Company** ₹ 50 lacs
- **Bonus** ₹ 50,000
- **Gratuity** ₹ 30,000
- **Own Contribution to R.P.F.** ₹ 30,000
- **Employer's contribution to R.P.F.** 20% of basic salary
- **Interest credited in the R.P.F. account @ 15% p.a.** ₹ 15,000
- **Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.**
- **Music System purchased on 01.04.2021 by the company for ₹ 85,000 and was given to him for personal use.**
- **Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.**
- **Received interest of ₹ 5,860 on bank FDRs on 24.4.2021 and interest of ₹ 6,786 (Net) from the debentures of Indian Companies on 5.5.2021.**
- **Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.**
- **Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.**
- **Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.**

Compute the total income and tax payable thereon for the A.Y. 2022-23. Assume Raman does not opt for section 115BAC.

Answer:

Computation of Total Income for the A.Y. 2022-23

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 15,000 x 12)		1,80,000
Dearness Allowance (₹ 12,000 x 12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lacs)		25,000
Bonus		50,000
Gratuity (See Note 1)		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt (See Note 2)	33,240	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt up-to 9.5% p.a.	9,500	5,500
Gift of gold ring worth ₹ 10,000 on 25 th wedding anniversary by employer (See Note 3)		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		8,500
Gross Salary		4,55,760
Less: Standard deduction under section 16(ia)		50,000
		4,05,760
Profits and Gains of Business or Profession		
Lease of 2 light goods vehicles on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 7,500 p.m. for each of the two light goods vehicle (₹ 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest from debentures (₹ 6786 x 100/90)	7,540	13,400
Gross total Income		5,99,160
Less: Deductions under Chapter VI-A		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 80D – Mediclaim Insurance		22,500
Section 80G (See Note 4)		10,600
Total Income		4,40,690
Tax on total income		
Income-tax		9,535
Add: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000		9,535
Total Tax Payable		Nil
Less: Tax deducted at source (₹ 7,540 – ₹ 6,786)		754
Net tax refundable		754
Tax refundable (rounded off)		750

Notes:

- Gratuity received during service is fully taxable.
- Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
 $= 12\% \text{ of } [₹ 1,80,000 + (50\% \text{ of } ₹ 1,44,000) + ₹ 25,000]$
 $= 12\% \text{ of } 2,77,000 = ₹ 33,240$
- An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts up-to ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,00,760.
- Deduction under section 80G is computed as under:**

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Gross Total Income i.e. ₹ 45,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Gross Total Income = Gross Total Income - Deductions under section 80C and 80D
 $= ₹ 5,99,160 - ₹ 1,47,870$
 $= ₹ 4,51,290.$

- From the following Particulars furnished by Mr. X for the year ended 31.3.2022, you are requested to compute his total income and tax payable for the assessment year 2022-23, assuming that he does not opt for paying tax under section 115BAC.
 - Mr. X retired on 31.12.2021 at the age of 58, after putting in 25 years and 9 months of service, from a private company at Mumbai.
 - He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
 - On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
 - He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.
 - After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period up-to 31.3.2022.
 - Mr. X has deposited ₹ 1,00,000 in public provident fund.

Answer:**Computation of total income of Mr. X for A.Y. 2022-23**

Particulars	₹	₹
Income from Salaries		
Basic salary (₹ 25,000 x 9 months)		2,25,000
House rent allowance:		
Actual amount received (₹ 6,000 x 9 months)	54,000	
Less : Exemption under section 10(13A)(Note 1)	36,000	18,000
Gratuity:		
Actual amount received	3,50,000	
Less: Exemption under section 10(10)(ii) (Note 2)	3,50,000	-
Leave encashment:		

Actual amount received	3,15,000	
Less : Exemption under section 10(10AA) (Note 3)	2,45,000	70,000
Gross Salary		3,13,000
Less: Standard deduction under section 16(ia)		50,000
		2,63,000
Profits and gains of business or profession		
Business loss of ₹ 80,000 to be carried forward as the same cannot be set off against salary income		Nil
Gross Total income		2,63,000
Less : Deduction under section 80C		
Deposit in Public Provident Fund		1,00,000
Total income		1,63,000
Tax on total income		Nil

Notes:

- (1) As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

(i) HRA actually received (₹ 6,000 x 9)	54,000
(ii) Rent paid in excess of 9 months 10% of salary (₹ 6,500 – ₹2,500)	36,000
(iii) 50% of salary	1,12,500

- (2) Gratuity of ₹ 3,50,000 is exempt under section 10(10)(ii), being the minimum of the following amounts:

	₹
(i) Actual amount received	3,50,000
(ii) Half month salary for each year of completed service [(₹ 25,000 x 15/26) x 26 years]	3,75,000
(iii) Statutory limit	20,00,000

- (3) Leave encashment is exempt up-to the least of the following:

	₹
(i) Actual amount received	3,15,000
(ii) 10 months average salary (₹ 24,500 x 10)	2,45,000
(iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (See Note 4 below)	3,06,250
(iv) Statutory limit	3,00,000

- (4) Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer	= 30 days/year x 25= 750 days
Less: Leave taken /availed by Mr. X during the period of his service days	= 15 days/year x 25= 375
Earned leave to the credit of Mr. X at the time of his retirement	= 375 days
Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement	= 375 X ₹ 24,500 /30= ₹ 3,06,250

7. Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2022:

S. No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	--	60,000
2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	--
7.	Mediclaim policy premium paid by A/c Payee Cheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the taxable income and tax liability of Rosy and Mary for the Assessment Year 2022-23 and tax thereon.

Answer:

Computation of taxable income of Rosy and Mary for the A.Y. 2022-23

S. No.	Particulars	Rosy	Mary
		₹	₹
(I)	Salaries		
	Pension received from State Government ₹ 60,000		
	Less: Standard deduction under section 16(ia) ₹ 50,000		10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India	-	
		-	10,000
(II)	Income from house property		
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction under section 24(a) @ 30%	18,000	9,000
		42,000	21,000
(III)	Capital gains		
	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
		1,20,000	3,50,000
(A)	Gross Total Income [(I)+(II)+(III)]	1,62,000	3,81,000
	Less: Deductions under Chapter VIA		
1.	Deduction under section 80C		
	(a) LIC Premium paid	-	10,000
	(b) Premium paid to Canadian Life Insurance Corporation	40,000	-
	(c) Deposit in PPF	-	20,000
		40,000	30,000
2.	Deduction under section 80D – Mediclaim premium paid	40,000	25,000
			55,000
(B)	Total deduction under Chapter VIA is restricted to income other than capital gains taxable under sections 111A & 112	40,000	31,000
(C)	Total income (A-B)	1,22,000	3,50,000

Tax liability of Rosy for A.Y. 2022-23			
Tax on long-term capital gains @20% of ₹ 1,00,000		20,000	
Tax on short-term capital gains @15% of ₹ 20,000		3,000	
Tax on balance income of ₹ 2,000		Nil	
		23,000	
Tax liability of Mary for A.Y. 2022-23			
Tax on short-term capital gains @15% of ₹ 1,00,000 [i.e. ₹ 2,50,000 less ₹ 1,50,000, being the unexhausted basic exemption limit as per proviso to section 111A][See notes 3 & 4 below]			15,000
Less: Rebate under section 87A would be lower of ₹ 12,500 or tax liability, since total income does not exceed ₹ 5,00,000		NIL	12,500
			2,500
Add: Health and Education cess @ 4%		920	100
Total tax payable		23,920	2,600

Notes:

- (1) Long-term capital gains on sale of land is chargeable to tax @ 20% as per section 112.
- (2) Short-term capital gains on transfer of equity shares in respect of which securities transaction tax is paid is subject to tax @ 15% as per section 111A.
- (3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then the long-term capital gains/ short-term capital gains will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15% respectively. However, this benefit is not available to non-residents. Therefore, while Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable under section 112 and short-term capital gains taxable under section 111A, Rosy cannot do so.
- (4) Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mary to first exhaust her basic exemption limit of ₹ 2,50,000 against long-term capital gains of ₹ 100,000 and the balance limit of ₹ 1,50,000 (i.e., ₹ 2,50,000 – ₹ 1,50,000) against short-term capital gains.
- (5) Rebate under section 87A would not be available to Rosy even though her total income does not exceed ₹ 5,00,000, since she is non-resident for the A.Y. 2022-23.

8. **VERY IMP (10 Marks):** Mr. X, an individual set up an unit in Special Economic Zone (SEZ) in the financial year 2017-18 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2020-21, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2021 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the financial year 2021-22 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export sales of above unit	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 35AD).	1,05,00,000

Compute income-tax (including AMT under Section 115JC) liability of Mr. X for Assessment Year 2022-23 both as per regular provisions of the Income-tax Act and as per section 115BAC for Assessment Year 2022-23. Advise Mr. X whether he should opt for section 115BAC.

Answer:

**Computation of total income and tax liability of Mr. X for A.Y. 2022-23
(under the regular provisions of the Income-tax Act, 1961)**

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction under section 35AD [See Note (2) below]	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
Gross Total Income		80,00,000
Less: Deduction under section 10AA [See Note (1) below]		32,00,000
Total Income		48,00,000
Computation of tax liability (under the normal/ regular provisions)		
Tax on ₹ 48,00,000 (as per slab rates)		12,52,500
Add: Health and Education cess@4%		50,100
Total tax liability		13,02,600

Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax

Particulars	₹	₹
Total Income (as computed above)		48,00,000
Add: Deduction under section 10AA		32,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32		
On building @10% of ₹ 65 lakhs	6,50,000	58,50,000
Adjusted Total Income		1,38,50,000
Alternate Minimum Tax@18.5%		25,62,250
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		3,84,338
		29,46,588
Add: Health and Education cess@4%		1,17,863
		30,64,451
Tax liability under section 115JC (rounded off)		30,64,450

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, tax liability as per section 115JC is ₹ 30,64,450.

**Computation of total income and tax liability of Mr. X for A.Y. 2022-23
(under the provisions of section 115BAC of the Income-tax Act, 1961)**

Particulars	₹	₹
Total Income (as computed above as per regular provisions of income tax))		48,00,000
Add: Deduction under section 10AA (not allowable)		32,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32		
On building @10% of ₹ 65 lakhs (normal depreciation under section 32 is allowable)	6,50,000	58,50,000
Total Income		1,38,50,000
Computation of tax liability as per section 115BAC		
Tax on ₹ 1,38,50,000 (as per Section 115BAC)		38,92,500
Add: Surcharge@15%		5,83,875
Total		44,76,375
Add: Health and Education cess@4%		1,79,055
Total Tax liability		46,55,430

Notes:

(1) Deductions u/s 10AA and 35AD are not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.

(2) Individuals or HUFs exercising option u/s 115BAC are not liable to alternate minimum tax u/s 115JC.

Since the tax liability of Mr. X under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him not to opt for section 115BAC for A.Y. 2022-23. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward under section 115JEE

Particulars	₹
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income- tax Act, 1961	13,02,600
AMT credit	17,61,850

Notes:

(1) Deduction under section 10AA in respect of Unit in SEZ =

$$\text{Profit of the Unit in SEZ} \times \frac{\text{Export turnover of the Unit in SEZ}}{\text{Total turnover of the Unit in SEZ}}$$

$$₹ 40,00,000 \times \frac{₹ 80,00,000}{₹ 1,00,00,000}$$

$$= ₹ 32,00,000$$

(2) Deduction @100% of the capital expenditure is available under section 35AD for A.Y. 2022-23 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations.

Deduction under section 35AD would, however, not be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹ 65 lakhs (i.e., ₹ 75 lakhs – ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y. 2020-21 and capitalized in the books of account on 1.4.2021, being the date when the warehouse became operational, ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction under section 35AD.

9. **IMPORTANT** - The following is the Profit and Loss Account of Mr. Aditya, aged 58 years, a resident, for the year ended 31.03.2022:

Particulars	₹	Particulars	₹
Rent	60,000	Gross Profit	1,85,000
Repair of car	3,000	Gift of cash from a friend (received on 15.09.2021)	25,000
Penalty	5,000	Sale of car	17,000
Medical expenses	4,500	Interest on income-tax refund	3,000
Salary	18,000		
Depreciation on car	3,000		
Advance income-tax	1,500		
Net Profit	1,35,000		
	2,30,000		2,30,000

Other information:

- Aditya bought a car during the year for ₹ 20,000. He charged depreciation @ 15% on the value of the car. The above car was sold during the year for ₹ 17,000. The use of the car was 3/4th for business and 1/4th for personal use.
- Medical expenses were incurred for the treatment of Nikita, his wife.
- Salary had been paid on account of car driver.
- Rent includes arrears of rent from April 2021 to October 2021 @ ₹ 5,000 p.m., paid in cash on 1.11.2021.
- Mr. Aditya had also let out a house property at a monthly rent of ₹ 25,000. The expected value is considered to be ₹ 2,50,000. The municipal taxes are ₹ 6,000, out of which ₹ 3,000 are paid by the tenant and ₹ 3,000 are yet to be paid by Mr. Aditya. Interest on loan taken for repairs of the house property is ₹ 20,000.
- Mr. Aditya's minor daughter received ₹ 75,000 from stage acting. Interest on company deposits of Mr. Aditya's daughter (deposit was made out of income from stage acting) was ₹ 10,000.
- Aditya incurred an expense of ₹ 50,000 on the medical treatment of his dependent son, who has disability of more than 80%.
- Aditya had taken a loan during the year 2021-22 for the education of his son, who is pursuing B.Com. in Delhi University. Interest paid on the same during the year was ₹ 10,000.

Compute the total income of Mr. Aditya for the assessment year 2022-23. Ignore Section 115BAC.

Answer:

Computation of total income of Mr. Aditya for the A.Y. 2022-23

Particulars	₹
Income from house property (Working Note – 1)	1,90,000
Income from business (Working Note – 2)	1,44,250
Income from other sources (Working Note – 3)	11,500
Gross Total Income	3,45,750
Less: Deduction under Chapter VI-A (Working Note – 4)	1,35,000
Total Income	2,10,750

Working Notes:

1. Computation of income under the head "Income from house property"

Particulars	₹	₹
Gross Annual Value (Higher of Actual Rent and Expected Rent)		
Actual Rent (₹ 25,000 × 12)	3,00,000	
Expected Rent	2,50,000	3,00,000
Less: Municipal taxes paid by Mr. Aditya		<u>Nil</u>
Net Annual Value (NAV)		3,00,000
Less: Deductions under section 24		
(a) 30% of NAV	90,000	
(b) Interest on loan	20,000	1,10,000
Income from house property		1,90,000

2. Computation of income under the head “Profits and gains of business or profession”

Particulars	₹	₹
Net Profit as per profit and loss account		1,35,000
Add: Expenses disallowed:		
Penalty	5,000	
Advance income-tax	1,500	
Depreciation on car (not allowable, since the asset does not exist at the end of the year)	3,000	
Medical expenses of wife (personal expenses, disallowed)	4,500	
Driver's salary ($\frac{1}{4}$ th being for personal use, disallowed)	4,500	
Repair of car ($\frac{1}{4}$ th being for personal use, disallowed)	750	
Rent paid [₹ 35,000 paid in cash – disallowed u/s 40A(3)]	35,000	54,250
		<u>1,89,250</u>
Less: Income not taxable/exempt under the Income-tax Act, 1961 Income not taxable under this head		
Cash gift from friend (not taxable under this head)	25,000	
Sale of car	17,000	
Interest on income-tax refund (taxable under the head “Income from other sources”)	3,000	45,000
Income under the head “Profits and gains of business or profession”		<u>1,44,250</u>

3. Computation of income under the head “Income from other sources”

Particulars	₹	₹
Cash gift from friend received on 15.9.2021 (not taxable under section 56(2)(x), since the aggregate value of gifts is less than ₹ 50,000)		-
Interest on income-tax refund		3,000
Interest on company deposits accruing to Mr. Aditya's minor daughter [See Note below]	10,000	
Less: Exempt under section 10(32)	1,500	8,500
Income from other sources		<u>11,500</u>

Note: Income received by Aditya's minor daughter from stage acting is not includible in the income of Mr. Aditya, since the income has been earned by her on account of her special talent. However, interest on company deposits is includible in Mr. Aditya's income as per section 64(1A), even though the deposit was made out of income derived from special talent.

4. Computation of deduction under Chapter VI-A

Section	Particulars	₹
80DD	Medical treatment of dependent disabled [flat deduction of ₹ 1,25,000 in case of severe disability (80% or more) irrespective of the amount incurred]	1,25,000
80E	Interest on loan for higher education of son, being a relative	10,000
	Total deduction under Chapter VI-A	<u>1,35,000</u>

Note:

(1) The municipal taxes actually paid by the owner during the year are allowable as deduction. In this case, since ₹ 3,000 is paid by the tenant and ₹ 3,000 is yet to be paid by Mr. Aditya, the municipal taxes of ₹ 6,000 are not allowable as deduction.

(2) The transaction of purchase and sale of motor car during the year would result in a short-term capital loss to be carried forward for set-off against capital gains of the subsequent year.

10. Dr. Krishna furnishes you the following information:

Income and Expenditure Account for the year ended 31st March 2022

Particulars	₹	Particulars	₹
To Medicines consumed	42,42,000	By Fee receipts	58,47,500
To Staff salary	11,65,000	By Rent	27,000
To Hospital consumables	47,500	By Dividend from Indian Companies (gross)	9,000
To Rent paid	60,000		
To Administrative expenses	1,23,000		
To Net Income	2,46,000		
	58,83,500		58,83,500

(i) Rent paid includes rent for his residential accommodation of ₹ 30,000 (paid by cheque) at Bangalore.

(ii) Hospital equipments (eligible for depreciation @ 15%)

01.04.2021 Opening WDV ₹ 5,00,000

07.12.2021 Acquire (Cost) ₹ 2,00,000

(iii) Medicines consumed include medicines (cost) ₹ 10,000 used for Dr. Krishna's family.

(iv) Rent received – relates to a property situated at Mysore (Gross Annual Value). The municipal tax of ₹ 2,000 paid in December, 2021 has been included in the "administrative expenses".

(v) He received ₹ 10,000 per month as salary from Full Cure Hospital. This has not been included in the "fee receipts" credited to income and expenditure account.

(vi) He sold a vacant site in July, 2021 for ₹ 4,55,473. It was inherited by him from his father in January, 2008. The site was acquired by his father in December, 2004 for ₹ 1,50,000.

(Cost inflation index for F.Y 2004-05 = 113; 2007-08 = 129 and 2021-22 = 317)

Compute Dr. Krishna's taxable income for the year ended 31.03.2022. Ignore Section 115BAC.

Answer:

Computation of taxable income of Dr. Krishna for the previous year ended 31.03.2022

Particulars	₹	₹
Income from Salaries		
Salary received @ ₹ 10,000 per month less standard deduction ₹ 50,000		70,000
Income from house property		
Gross Annual Value	27,000	
Less: Municipal tax	<u>2,000</u>	
Net Annual Value	25,000	
Less: Deduction under section 24 @ 30%	<u>7,500</u>	17,500
Income from business or profession		
Net income as per income & expenditure account	2,46,000	
Add: Rent paid to residence	30,000	
Medicines consumed – personal use	10,000	
Municipal tax relating to let out property included in administrative expenses – disallowed	<u>2,000</u>	
	2,88,000	
Less: Depreciation (See working note 2)	90,000	
Rent credited to income & expenditure account	27,000	
Dividend from Indian companies	<u>9,000</u>	1,62,000
Capital Gains (Long term capital gains)		
Sale consideration	4,55,473	
Less: Indexed cost acquisition (₹ 1,50,000 x 317/129) (See Note 3)	<u>3,68,607</u>	86,866
Income from other sources (Dividend Income)		9,000
Gross Total income		3,45,366

Less: Deduction under chapter VIA – Section 80GG

Under section 80GG, rent paid would be allowable as a deduction to the extent of the least of the following

(i) 25% of total income = 25% of ₹ 2,58,500 (See Note 1)	64,625	
(ii) Excess of rent paid over 10% of total income (₹ 30,000 - ₹ 25,850)	4,150	
(iii) ₹ 5,000 per month	<u>60,000</u>	
Least of the above		4,150
Total Income		3,41,216
		or, 3,41,220

Note:

- Deduction under section 80GG is to be made from Gross Total Income. Gross Total Income as defined under section 80B(5) means the total income computed in accordance with the provisions of this Act, before making any deduction under Chapter VI-A. Under section 112(2), Long term capital gains have to be reduced from Gross Total Income and Chapter VI-A deductions should be allowed as if the Gross Total income so reduced were the Gross Total Income of the assessee.

Therefore, in this case, for the purpose of allowing deduction u/s 80GG,

Gross Total Income = ₹ 3,45,366 – ₹ 86,866 = ₹ 2,58,500.

2. Depreciation on plant & machinery

	₹
On opening WDV of ₹ 5,00,000 @ 15%	75,000
On equipment acquired ₹ 2,00,000 @ 7.5%	<u>15,000</u>
(50% thereon, since acquired in December)	90,000

- Since the property was acquired by Dr. Krishna through inheritance, the cost of acquisition to him will be the cost to the previous owner. However, indexation will be from the year in which the assessee (i.e., Dr. Krishna in this case) first held the asset i.e. F.Y. 2007-08.

Alternative view: In the case of CIT v. Manjula J. Shah, the Bombay High Court held that the indexed cost of acquisition in case of gifted asset can be computed with reference to the year in which the previous owner first held the asset.

As per this view, this indexation cost of acquisition of property would be ₹ 4,20,796.