

CA INTER
DIRECT TAX

SUMMARY

BOOK

Amended by finance Act 2023

A.Y. 2024-2025

MAY / NOV 2024

Handwritten

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Pyare Baccho,

It is with great pleasure that I present this book tailored specifically for you, the aspiring Chartered Accountants of tomorrow.

This book covers a comprehensive range of topics, each designed to empower you with the knowledge and skills necessary to excel in your tax examination.

What You Can Expect

Within the pages of this book, you will find a systematic breakdown of taxation, presented in a student-friendly manner. Concepts will be demystified, and practical insights will be shared to bridge the gap between theory and application. Each chapter is designed to be a stepping stone towards your goal of becoming a successful Chartered Accountant.

How to Use This Book

While this book can be used as a standalone resource. Each section aligns with the official syllabus, making it easy to integrate into your study routine. Take advantage of the exercises, case studies, and practice questions to reinforce your knowledge and enhance your problem-solving skills.

I extend my heartfelt gratitude to all those who supported me in this endeavor. Your encouragement and expertise have been invaluable in shaping this resource.

While every effort has been made to avoid errors or omissions in this book, If you encounter any mistakes or discrepancies in the book, please do not hesitate to reach out to me via email at gulijai@gmail.com. Your feedback is invaluable and will help improve the quality of this resource for future readers. Thank you for your assistance in ensuring the accuracy of the content."

CA Jai Gulia

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New Delhi

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CHAPTER 01

Basic Concepts of Income Tax

TAX

Tax is "Compulsory Extortion of Money" by the govts on income, commodity or activity

TAXES LEVIED

Taxes are levied by the Govts to meet the common welfare expenditure of the society like defence, education, health, infrastructure facilities like roads, dams etc "Cost of living in a society".

POWER TO LEVY TAXES [TAXATION SYSTEM IN INDIA]

- Article 265 of COI provides that no tax shall be levied or collected except by authority of law.
- Article 246 of COI empowered to levy taxes, to Parliament (Union) & State Government (SG)

Seventh Schedule to Article 246 contains 3 lists which are as follows:

Union List CG, State List SG, Concurrent List Both CG & SG has exclusive power to make laws on matters contained in list respectively

- Entry 82 of Union List (List I in Seventh Schedule of COI) gives power to Parliament to levy taxes on Income other than Agricultural Income.
- Entry no. 46 of state list has given power to state govt. to levy tax on agriculture income.

TYPES OF TAXES

Particulars	Direct Tax	Indirect Tax
Definition	If tax is levied directly on income/wealth of a person.	If tax is levied on price of a good or service.
Incidence & Impact	Are on same person.	Are on different person.
Levied on	Income/wealth of the person.	Price of Goods or Services
Burden	There is No Shifting of burden. * Directly borne by the taxpayer.	Burden is shifted to subsequent buyer.

		* Burden falls on final consumer.
Time of Collection	Collected on yearly basis.	Collected at the time of sale/purchase of goods or rendering of services.
Examples	Income tax, Tax on undisclosed foreign Income or Assets.	* GST, Custom duty.

COMPONENTS OF INCOME TAX LAWS

A. INCOME TAX ACT, 1961

It came into force (WHOLE INDIA) on 1st April, 1962. The act contains 298 sections & XIV schedules.

B. INCOME TAX RULES, 1962

- The administration of direct taxes is looked after by the Central Board of Direct Taxes (CBDT).
- CBDT is empowered to make rules for proper administration of the Act. Ex: Sec 32 states that depreciation will be allowed as deduction but rates of depreciation are given by Rule 5.
- A Section or Rules have Sub-section, sub-rules, provisos and Explanations.

Clauses and Sub-Clauses When each part of the section is independent of each other and one is not related with other, such parts are called a "Clause".

Ex: Clause (1A) of Section 2 defines "agricultural income", Clause (1B) defines "amalgamation".

Sub-section It refers to such parts of a section where each part is related with other & all sub sections taken together completes the concept propounded in that section.

Ex: Section 5 defining the scope of total income has two sub-sections (1) & (2).

Sub-section (1) defines the scope of total income of a resident;

Sub-section (2) defines the scope of total income of a non-resident.

Provisos It gives the exceptions/conditions to the provision contained in the respective section, sub-section/clause.

Explanation It gives clarification relating to the provision contained in that section, subsection/clause.

C. ANNUAL FINANCE ACT Every year, Finance Minister Introduces the Finance Bill in Parliament's Budget session. When the Finance Bill is passed by both the houses of the Parliament & gets the assent of the President, it becomes the Finance Act which is incorporated in the Income-Tax Act. Amendments are made every year to the Act & other tax laws by the Finance The First Schedule to the Finance Act contains four parts which specify the rates of tax.

Part I Rate of Tax applicable for the current Assessment Year.

Part II Rate of TDS for the current Financial Year.

Part III Rate of Advance Tax & Rate of tax to be deducted from income u/h 'Salaries'.

Part IV Rules for computing Net Agricultural Income.

D. NOTIFICATIONS

- Notifications are subordinate legislation issued by CG to give effect to the provisions of the Act.
- They are binding on everyone. [Assessee + Income Tax department]

E. CIRCULARS

- Circulars are issued by the CBDT to deal with certain specific problems & to clarify the doubts of the law.
- These circulars are binding on the department but not on the assessee.

Circular No. 28/2016 Dated 27/07/2016. Clarification regarding attaining prescribed age of 60 /80 years on 31st March itself, in case of senior/very senior citizens whose date of birth falls on 1st April. Person born on 1st April would be considered to have attained a particular age on 31st March, the day before his birthday. Therefore, a resident individual whose 60th/80th birthday falls on 1st April, 2023, would be treated as having attained 60/80 years in PY 2022-23, & would be eligible for higher BEL of ₹ 3/5 lacs.

F. CASE LAWS (JUDICIAL DECISIONS)

- The judiciary will hear the disputes between the assessee & the Income tax Department & give its decisions

- Supreme Court Decisions becomes Judicial Precedent (Law) & are binding on all the courts, Appellate Tribunal, Income Tax Authorities & on Assesseees.
- High Court decisions are binding on the Assesseees & Income Tax Authorities which come under its jurisdiction unless it is overruled by a higher authority (Supreme Court).
- Decision of a High Court cannot bind another High Court.

LEVY/CHARGE OF INCOME TAX [SECTION 4] Income-tax is a tax levied on the total income of the Previous Year of every person (Section 4).

SOME IMPORTANT DEFINITIONS

If term defined in the act: - Section 2 gives definition

If term not defined in the act: - Reference can be made to the General Clauses Act / Dictionaries.

1. **INDIA [SECTION 2(25A)]**

- The term 'India' means -
- Territory of India as per Article 1 of the Constitution,
- Territorial Waters of India (TWI)(12NM), seabed & subsoil underlying such waters,
- Contiguous Zone (24NM) , Continental Shelf,
- Exclusive Economic Zone; (200 NM)
- Any other specified maritime zone & air space above its territory & TWI.

2. **ASSESSEE - [SECTION 2(7)]**

- Any person by whom any tax or any other sum of money is payable under this Act. It includes: Tax Payable, Proceeding started, Deemed Assessee, Representative Assessee Ex: Legal Heir.
- Assessee in default Any person who does not deduct tax at source or after deducting tax, fails to pay deducted tax to the govt. or who fails to pay advance tax is deemed to be assessee in default u/s [201 (1)] / 218. .

3. **ASSESSMENT [SECTION 2(8)]** This is the procedure by which the income of an assessee is determined by AO.

4. PERSON [SECTION 2(31)]

AN INDIVIDUAL - Individual means only a natural human being (Male / Female / Minor / Unsound Mind). Note: Income of Minor & Person of unsound Mind → Assessed in hands of Manager / Guardian. In the case of Deceased person, assessment would be made on the legal representative

HINDU UNDIVIDED FAMILY (HUF)

- HUF is not defined under IT Act. However, it is treated as separate entity under IT Act.
- As per Hindu Law, family consists of all males lineally descended from a common ancestor & includes their wives & unmarried daughters.
- The Status in HUF is received by birth & not by operation of law.
- Even a single male member can have HUF (w.e.f 6/9/2005).
- Only Co-parceners have the right to Partition.
- Co-parceners → HUF may contain many members, but only members within 4 degrees including KARTA are called co-parceners (including daughters w.e.f 6/9/2005). Note: Wife/ daughter-in-law cannot be co-parceners; however, they can be members.
- Jain & Sikh undivided families would also be assessed as a HUF under IT Act.

DIFFERENT OPINIONS OF SCHOOLS OF HINDU LAWS

Dayabaga school of Hindu law	Mitakshara school of Hindu law
✚ Prevalent in West Bengal & Assam	✚ Prevalent in the Rest of India
✚ Nobody acquires the right, share in the property by birth if karta is alive.	✚ One acquires the right to the family property by his birth & not by succession irrespective of the fact that his elders are living.
✚ Hence, father & his brothers would be the coparceners of the HUF.	✚ Hence, every child will also be coparcener of the HUF.

COMPANY [SECTION 2(17)]

- + Any Indian Company defined in section 2(26);
- + Any Body Corporate incorporated under the foreign laws [Foreign company];

CLASSES OF COMPANIES**DOMESTIC COMPANY [SECTION 2(22A)]**

- + An Indian company or
- + Foreign company which has made prescribed arrangements for declaration & payment of dividends within India payable out of the taxable Income in India

INDIAN COMPANY [SECTION 2(26)]

If the company satisfy the following two conditions:

- + Company should have been **formed & registered** under any law in India (Co. Act 1956/2013) &

FOREIGN COMPANY [SEC 2(23A)]

- + A Company which is not a domestic company.

A FIRM [SECTION 2(23)]

- + A firm includes a partnership firm (registered or not) & shall include an LLP.
- + However, for IT purposes, a minor would also be treated as partner
- + Same Tax Treatment would be applicable for both General Partnerships & LLPs.

ASSOCIATION OF PERSONS (AOP)

- + When two or more persons combine together for promotion of joint enterprise, they are assessable as an AOP when they do not constitute a partnership legally.
- + Conditions to form AOP: Persons must join in a common purpose, common action & their object must be to produce Income.
- + Co-heirs, co-donees joining together for common purpose would be chargeable as AOP.

BODY OF INDIVIDUALS (BOI)

Persons who merely receive the income jointly & who may be assessable in like manner & to the same extent as the beneficiaries individually. Co-Executors/Co-trustees are assessable as BOI since their title & interest are indivisible.

Note: Tax is not payable by the assessee on share of Income received by him from BOI on which the tax has already been paid by such BOI. [To avoid Double Taxation]

QUESTION

What is the difference between AOP & BOI ?

ANSWER :

The difference between AOP & BOI is that whereas an association implies a voluntary getting together for a definite purpose, a body of individuals would be just a body without an intention to get-together. Moreover, members of BOI can be individuals only but members of AOP can be individual or non-individuals (i.e. artificial persons).

LOCAL AUTHORITY

Municipal committee, district board, Municipality, Panchayat, body of port commissioners etc. legally entitled.

Note: Income of LA is taxable only if it is derived from the business of supply of commodity/service (other than water & electricity) outside its own jurisdictional area. Income arising from supply of water & electricity even outside its own jurisdictional areas → Exempt.

ARTIFICIAL JURIDICAL PERSON

are the entities which are not natural persons but are separate entities in the eyes of law.

Ex: Universities, ICAI, Bar Council, or deity.

5. **AVERAGE RATE OF TAX [SECTION 2(10)]** Average Rate of Tax = $\frac{\text{Amount of Income Tax}}{\text{Total Income}}$ calculated on Total Income using applicable slab rate
6. **MAXIMUM MARGINAL RATE OF TAX [SECTION 2(29C)]** Highest Slab Rate of Tax (including SC) specified in Finance Act of relevant PY for Individual.

RELEVANCE OF METHOD OF ACCOUNTING FOLLOWED BY THE ASSESSEE

Heads	Relevant Method of Accounting
Salaries(15-17)	<ul style="list-style-type: none"> ✚ Taxable on due basis or on receipt basis whichever is earlier. ✚ Method of accounting followed by the assessee is irrelevant.

HP (22-27)	✚ Taxable on Accrual basis . Method of accounting of assessee is irrelevant.
PGBP(28-44DB)	✚ GBP Income is taxable as per method of accounting followed by assessee. If assessee follows Accrual basis → Income taxed on accrual basis. If assessee follows Cash basis → Income taxed on Cash basis.
Cap. Gain(45 - 55A)	✚ Taxable in the PY in which the capital asset is transferred. ✚ Method of accounting followed by the assessee is irrelevant.
IFOS(56 - 59)	✚ Same as PGBP.

Computation of Total Income

Determine Residential Status & Classify income under five heads

Salaries

Income
from
House PropertyProfit & Gains
from business
or profession

Capital gains

Income
from
other sources

Compute income under each head applying the Charging & deeming Provisions and Providing for permissible deductions/exemptions thereunder.

Apply clubbing provisions

Set-off/carryforward and set off of losses as per the provisions of the act

Compute Gross Total Income

Less-Deductions from GTI

Total Income(TI)

APPLICATION OF INCOME VS DIVERSION OF INCOME

Application of Income	Diversion of Income
<ul style="list-style-type: none"> ✚ After the income reaches in the hands of the assessee, ✚ It would be an application (apportionment) of income ✚ This would result in taxation of such income in the hands of the assessee. 	<ul style="list-style-type: none"> ✚ In case of diversion of income before it reaches in the hands of the assessee, ✚ It cannot be treated as an income of the assessee & thus NO TAX.

FY	<ul style="list-style-type: none"> ✚ Financial year means a year starting on 1st April & ending on 31st March.
PY [Sec 3]	<ul style="list-style-type: none"> ✚ FY in which the income is earned is called "Previous Year". ✚ PY means the Financial Year immediately preceding the AY.
AY [Sec 2(9)]	<ul style="list-style-type: none"> ✚ The year in which income is assessed to tax is called Assessment Year. ✚ AY 2024-25 will commence on 1.4.2024 & will end on 31.3.2025. ✚ Thus, Income earned during PY 2023-24 will be assessed/taxed in AY 2024-25.

CRUX: PY → Year in which Income is earned; AY → Next year in which income is taxed is AY.

Ex: A is running a business from 2003 onwards. Determine PY for AY 2024-25.

[Ans: PY = 1.4.2023 - 31.3.2024].

FY	PREVIOUS YEAR [PY]	ASSESSMENT YEAR [AY]
2023-24	FY 2023-24 is PY for income received/accrued during 1 April 2023 to 31 March 2024.	FY 2023-24 is the AY for incomes earned in PY 2022-23.
2024-25	FY 2024-25 is PY for income received/accrued during April 1, 2024 to March 31, 2025.	FY 2024-25 is the AY for incomes earned in PY 2023-24.

FIRST PREVIOUS YEAR FOR NEWLY SET-UP BUSINESS/PROFESSION DURING FY

First PY of a newly set-up business/ profession or a new source of income will be **either 12 months or less than 12 months. It can never exceed a period of 12 months.**

CQ1. Mr. JC set up a new business on 13.2.2024, what will be the first PY for that business?

A: From 13.02.2024-31.3.2024; PY 2023-24; AY 2024-25.

CASES WHERE INCOME OF PREVIOUS YEAR IS ASSESSED IN SAME YEAR

General Rule: Income earned during any PY is assessed to tax in immediately succeeding AY. However, in following circumstances, income is taxed in PY in which it is earned. Thus AY & PY in these exceptional circumstances will be the same.

FOLLOWING ARE THE EXCEPTIONS:

1. SHIPPING BUSINESS OF NON-RESIDENTS [SECTION 172]

- If a ship carries passengers/livestock/mail/goods shipped at a port in India,
- Such Ship is allowed to leave the port only when tax has been paid or satisfactory arrangement has been made for payment thereof.
- Income = 7.5% of the freight paid to the owner / agent in India or outside India.

2. PERSONS LEAVING INDIA [SECTION 174]

- Where it appears to AO that any individual may leave India during the current AY
- He has no present intention of returning to India,

Ex: Suppose Mr. X is leaving India for USA on 10.6.2023 & it appears to AO that he has no intention to return. Before leaving India, Mr. X will be required to pay tax on the income earned during the period 1.4.2023 to 10.06.2023.

3. AOP/BOI/AJP FORMED FOR A PARTICULAR EVENT OR PURPOSE [SEC 174A]

If AOP/BOI etc. is formed or established for a particular event or purpose & AO apprehends that AOP/BOI is likely to be dissolved in the same year or in next year,

4. PERSONS LIKELY TO TRANSFER PROPERTY TO AVOID TAX [SECTION 175]

During the current AY, if it appears to AO that a person is likely to charge, sell, transfer, dispose any of his assets to avoid payment of any liability under this Act,

5. DISCONTINUED BUSINESS [SECTION 176]

If any business or profession is discontinued in any AY, Income up to the date of such discontinuance may, at the discretion of AO may be charged to tax in that assessment year.

PREVIOUS YEAR FOR UNDISCLOSED SOURCES OF INCOME.

1. CASH CREDITS [SECTION 68]

- Where any sum is found credited in books of the assessee
- Such Sum so credited may be charged as income of the assessee of that PY. Where the sum so credited consists of loan or borrowing or any such amount, by whatever name called, any explanation offered by the assessee in whose books such sum is credited shall not be deemed to be satisfactory the person in whose name such credit is recorded in the books of such assessee also offers no explanation nature and source of such sum explanation offered is not satisfactory

2. UNEXPLAINED INVESTMENTS [SECTION 69]

- If assessee has made investments which are not recorded in books of account
- Value of investments are taxed as income of assessee of such FY in which investment is made.

3. UNEXPLAINED MONEY ETC. [SECTION 69A]

- Where in any FY, assessee is found to be owner of money, bullion, jewellery etc. &
- Such asset is not recorded in books of account

- Money & Value of bullion etc. will be deemed to be income of the assessee for such FY.

- Ownership is important & mere possession is not enough. Thus, if the assessee is in possession of the above-mentioned things but he is not the owner, then such other person who is the owner will be questioned about the source & will be assessed to tax.

4. AMOUNT OF INVESTMENTS NOT FULLY DISCLOSED IN BOOKS [SECTION 69B]

- Where in any FY, assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article &
- AO finds that amount spent on making such investments exceeds the amount recorded in his books

- Such excess may be deemed to be the income of the assessee for such FY.

Ex: If Assessee is found to be the owner of 100 gms of gold (market value = ₹ 3,00,000) during the FY ending on 31.3.2024 but he has recorded to have spent ₹ 1,50,000 in acquiring it, AO can add ₹ 1,50,000 as the income of the assessee, if the assessee offers no satisfactory explanation thereof.

5. UNEXPLAINED EXPENDITURE [SECTION 69C]

- Where in any FY, Assessee has incurred any expenditure
- AO may treat such unexplained expenditure as the income of the assessee for such FY.
- Such unexplained expenditure which is deemed to be income of the assessee shall not be allowed as deduction under any head of income.

6. AMOUNT BORROWED OR REPAYED ON HUNDI [SECTION 69D]

- Where any amount is borrowed on hundi or is repaid (thereon) OTHER THAN THROUGH AN ACCOUNT-PAYEE CHEQUE,
- Amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying for the PY in which the amount was borrowed or repaid.
- Amount repaid shall include interest paid on the amount borrowed.

- But if any amount borrowed on hundi has been taxed as income of the person, he will not be again liable to be assessed in respect of such amount on repayment of such amount.

Ex: Mr. PC has borrowed ₹ 5 Lacs on Hundi from Mr. AC in cash. Since the amount is borrowed by the mode other than account payee cheque, ₹ 5 Lacs will be deemed to be the income of Mr. PC in the year of borrowing. Now when PC will repay the amount to Mr. AC (even if repaid in cash), it cannot be taxed again to PC on repayment basis.

Note: - In above point 1 to 5 assessee offers no explanation about the source of such transaction or the explanation offered is unsatisfactory,

RATE OF TAX FOR THE DEEMED INCOME U/S 68 & 69 [SECTION 115BBE]

- Such Deemed Incomes are taxed @ 60% + surcharge @ 25% of tax. Thus, Effective rate of tax (including SC @ 25% of tax & cess @ 4% of Tax & SC) is 78%. [Section 115BBE]
- Neither BEL nor any allowance nor set off of any loss shall be allowable against such income.

CHARGE OF INCOME TAX & RATE OF TAX [SECTION 4]

Tax rates are fixed by the Annual Finance Act & not by the Income Tax Act.

Optional Tax Regime: -

A. **INDIVIDUAL/ HUF/ AOP/ BOI/ AJP [Resident (below 60) or non-Resident (any-age)]**

Total Income	Rate of Tax
Upto ₹ 2,50,000 [Basic Exemption Limit]	Nil
From ₹ 2,50,001 to ₹ 5,00,000	5%
From ₹ 5,00,001 to ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

B. Resident Senior Citizen (60 years or more but below 80 years at any time during PY)

Total Income	Rate of Tax
Upto ₹ 3,00,000	Nil
From ₹ 3,00,001 to ₹ 5,00,000	5%
From ₹ 5,00,001 to ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

C. For Resident Super Senior Citizen (80 years or above at any time during PY)

Total Income	Rate of Tax
Upto ₹ 5,00,000	Nil
From ₹ 5,00,001 to ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

Default Tax Regime Section 115BAC, individuals / HUFs / AOP / BOI / AJP have to pay tax i.r.o their total income (other than income chargeable to tax at special rates under Chapter XII like long term capital gains u/s 112 or 112A, short term capital gains u/s 111A, casual income u/s 115BB etc.) not to avail certain exemptions/deductions like Leave Travel Concession, ~~standard deduction under the head "Salaries"~~, interest on housing loan on self-occupied property, deductions under Chapter VI-A [other than 80CCD(2), 80CCH(2) or section 80JJAA] etc. These rates are default unless assessee shift out the said regime.

(i)	Upto ₹ 3,00,000	Nil
(ii)	From ₹ 3,00,001 to ₹ 6,00,000	5%
(iii)	From ₹ 6,00,001 to ₹ 9,00,000	10%
(iv)	From ₹ 9,00,001 to ₹ 12,00,000	15%
(v)	From ₹ 12,00,001 to ₹ 15,00,000	20%
(vi)	Above ₹ 15,00,000	30%

Individuals and HUF exercising option u/s 115BAC are not liable to AMT (alternate minimum tax) u/s 115JC. It may be noted that resident individuals of the age of 60 years or more and 80 years or more would not be entitled to higher basic exemption limits of ₹ 3 lakhs and ₹ 5 lakhs, if they opt for section 115BAC. If assessee opt for 115BAC then maximum depreciation allowed @40%

D. Firms/ LLP/ Local Authority: Whole Income is taxable @ Flat 30% without any BEL.

E. CO-OPERATIVE SOCIETIES

Total Income	Rate of Tax
Upto ₹ 10,000	10%
From ₹ 10,001 to ₹ 20,000	20%
Above ₹ 20,000	30%

Note - Co-operative society, resident in India, can opt for concessional rate of tax @25.168% (i.e., tax@22% plus surcharge@10% plus health and education cess @4%) under section 115BAD in respect of its total income computed without giving effect to deduction under section 10AA, 33AB, 33ABA, 35(1)(ii)/(ia)/(iii), 35(2AA), 35AD, 35CCC, additional depreciation under section 32(1)(ia), deductions under Chapter VI- A (other than section 80JJAA) etc. and set off of loss and depreciation brought forward from earlier years relating to the above deductions. The provisions of alternate minimum tax

under section 115JC would not be applicable to co-operative society opting for section 115BAD .

F. COMPANY

Nature of Company	Nature of Company
If Total Turnover/Gross Receipt in PY 2021-22 \leq ₹ 400 Cr.	25%
In other case	30%
Foreign (Companies other than Domestic Company)	40%

SURCHARGE is an additional tax payable over & above the income-tax. It is levied as % of income-tax.

A. Individual/HUF/AOP/BOI/AJP

	Surcharge Rate on Income	
	Tax related to	
Total Income	Dividend & Income covered u/s 111A, 112 & 112A	Other Income
Total Income (including dividend income & capital gains chargeable to tax under Section 111A, 112 & 112A) exceeds ₹ 50 Lakhs but not exceeding ₹ 1 Crore	10%	10%
Total Income (including dividend income & capital gains chargeable to tax under Section 111A, 112 & 112A) exceeds ₹ 1 crores but not exceeding ₹ 2 Crore	15%	15%
Total Income (including dividend income & capital gains chargeable to tax under Section 111A, 112 & 112A)	15%	15%

exceeds ₹ 2 crores but not covered below		
Normal Income (excluding dividend income & capital gains chargeable to tax under Section 111A, 112 & 112A) exceeds ₹ 2 crores but not exceeding ₹ 5 crores	15%	25%
Normal Income (excluding dividend income & capital gains chargeable to tax under Section 111A, 112 & 112A) exceeds ₹ 5 crores	15%	37%

Imp Note: - If AOP consist Only Company than max Surcharge Will be 15% above Income 1 cr.

Imp Note: - Surcharge on Dividend & Capital Gain u/s 112, 112A & 111A shall not exceed 15%.

Normal Income (Excluding Special Income)	Special Income Dividend, 111, 112, 112A	Total	Surcharge Rate Normal Income	Surcharge Rate Special Income Dividend, 111, 112, 112A
44L	44L	88L	10%	10%
48L	72L	1.20 CR	15%	15%
40L	3.50 CR/6.50 CR	3.90CR/6.90CR	15%	15%
1.80 CR	30L	2.10 CR	15%	15%
1.80 CR	2.00 CR	3.80CR	15%	15%
1.80 CR	4.00 CR	5.80CR	15%	15%
2.50 CR	50 L	3.00CR	25%	15%
2.50 CR	4.00 CR	6.50CR	25%	15%
5.50 CR	1.10 CR	6.60 CR	37%	15%

Example

Dividend	8,00,000
STCG(111A)	2,02,00,000
LTCG (112A)	1,01,00,000
Other Income	1,00,00,000

Compute Tax Liability ??

Ans.

Tax Calculation

STCG (111A) (15%)	30,30,000
LTCG (112A) (10% in excess of 1,00,000)	10,00,000
Balance Income	30,52,500
Total Tax	70,82,500
Add Surcharge(111A, 112A @15%)	6,04,500
Add Surcharge(Dividend @15%)	33,917
Add Surcharge(Balance @15%)	4,23,958
Total Tax Include Surcharge	81,44,875
Add HEC @4%	3,25,795
Net Tax Liability	84,70,670

Note :- Tax Liability on Dividend $30,52,500/1,08,00,000 \times 8,00,000 = 2,26,111$

B. Surcharge for Other Assessees

Assessee	Rate of Surcharge if Total Income is ↓	
	Above 1 Cr but upto 10 Cr	Above 10 Cr
1. Firms/LLP/LA	12 % of Income Tax	12 % of I.Tax
2. Domestic Companies/ Co-op society	7 % of Income Tax	12 % of I.Tax
3. Foreign Companies	2 % of Income Tax	5 % of I.Tax

- C. **Surcharge for Co-operative Society** Sec 115BAD or Sec 115BAE: - @10% (No threshold limit) As per Sec 115BAE in case of manufacturing Co-operative Society (Resident) Set up & registered on or after 01/04/2023 and commences manufacturing of article or thing before 31/03/2024 tax rate will be @15%.
- D. **Surcharge for Domestic Company** Sec 115BAB or Sec 115BAA: - @10% (No threshold limit) As per Sec 115BAB in case of manufacturing domestic company Set up & registered on or after 01/10/2019 and commences manufacturing of article or thing before 31/03/2024 tax rate will be @15%. As per Sec 115BAA tax rate will be @22%.

MARGINAL RELIEF [SECTION 89]

If surcharge is applicable on Total Income, Marginal relief is available to ALL Assesseees.

Steps to calculate Marginal Relief:

1. Calculate Tax (including surcharge If) on Total Income of the Assessee.
2. Calculate Tax payable (including surcharge) on ₹ 50 Lacs/1 Cr/2 Cr/5 Cr (as the case may be) + excess of total income over ₹ 50 Lacs/1 Cr/2 Cr/5 Cr (as the case may be).
3. Calculate "Marginal Relief" = Step 1 - Step 2.
4. Calculate tax payable (Step 1 & Step 2 whichever is lower) by adding only HEC (4%).

Example Total Income 2,02,00,000 Calculate Tax liability with Marginal relief ?

Ans. Tax on total income	58,72,500
Add surcharge @25%	14,68,125
Tax on 2Cr	58,12,500
Add surcharge @15%	8,71,875
Above 2Cr 2,00,000	68,84,375

Marginal Relief = 73,40,625 - 68,84,375 = 4,56,250

Tax Liability = 68,84,250 + 2,75,375 (HEC @4%) = 71,59,750

REBATE U/S 87A

Eligible Assessee	Resident Individuals whose Total Income (Incl Special Income but Excluding Exempt Income) \leq ₹ 7,00,000 / ₹ 5,00,000
Amount of Rebate	Lower of (i) IT payable on Total Income OR (ii) ₹ 25,000 / 12,500.

Note: Rebate u/s 87A shall be before adding 4% HEC.

Note: Rebate u/s 87A is not available on LTCG u/s 112A.

Note: If Total Income exceeds ₹ 7,00,000 than relief available. (Refer Notes)

Note: Rebate is available from tax on all kinds of income including casual income.

Special Income Tax Rate

LTCG = @ 10% U/s 112A & @20% U/s 112.

STCG = @ 15% U/s 111A

Casual Income (lotteries, horse race, card game etc) = @30% u/s 115BB / 115BBJ

Imp Note: - Deficiency in normal income i.e., Normal income is below BEL than Only Resident Individual / HUF is allowed to set-off such deficiency against the special income.

Deficiency = Applicable slab rate - Normal Income after deduction u/s 80C-80U.

Order to set-off = LTCG u/s 112, STCG u/s 111A, LTCG 112A.

HEALTH & EDUCATION CESS

Health & Education cess @ 4% is levied on = Total Income tax + SC - Rebate u/s 87A.

ROUNDING OFF OF INCOME & TAX PAYABLE [SECTION 288A/B]

Total income/Tax shall be rounded off to the nearest multiple of 10 Rupees.

(Any paisa shall be ignored)

IF LAST digit is 5 or More, than round off in higher multiple. (40,505.40 → 40,510)

IF LAST digit is less than 5, round off in lower multiple. (40,504.95 → 40,500)

CHAPTER 02

Residential Status

Taxability of Income would depend not only on its Nature & Place of its Accrual/Receipt but also upon the Assessee's Residential Status.

Residential status of an assessee determined separately for each Previous year.

Citizenship of a country & residential status of that country are 2 separate concepts.

TYPES OF RESIDENTIAL STATUS



Point to Remember:



Only Individuals & HUF can be resident & ordinarily resident (ROR).



All other classes of assesseees can be either a Resident or Non-Resident.

DETERMINATION OF RESIDENTIAL STATUS OF DIFFERENT ASSESSEES.

INDIVIDUAL

BASIC CONDITIONS

1. He has been in India for total period of 182 days or more during PY OR
2. (a) He has been in India for at least 60 days in the relevant PY AND
(b) He has been in India for at least 365 days during Last 4 PYs.

Individual satisfy ANY 1 Condition → Resident [Check Additional Conditions].

If Both conditions are NOT satisfied → Non-Resident .

ADDITIONAL CONDITION

To determine whether an Individual is ROR or RNOR, we need to check 2 Additional conditions.

1. His Total Stay in India in Last 7 P.Y is 730 days or more AND
2. He is a Resident in Any 2 P.Y out of Last 10 P.Y

CRUX: If an Individual Satisfy:

→ **Both** Additional conditions → He is ROR.

→ **None or one** of the Additional conditions → He is RNOR.

EXCEPTIONS

Following Individuals will be Resident only if Period of Stay during PY is 182 days or more.

[2nd basic Condition → NA in the following cases]

- (i) Indian Citizen who leaves India during PY as a Member of Crew of Indian ship or
- (ii) Indian Citizen who leaves India during PY for employment/ BP/ VOCATION outside India;

- (iii) Indian Citizen or Person of Indian Origin who comes on visit to India in PY [Such Person must be engaged in employment/business outside India]

Person of Indian Origin: If the person or his parents or his grandparents were born in **UNDIVIDED INDIA**. Grandparents include both maternal & paternal grandparents.

IF in the above case(iii) his total income is upto 15 lakh(excluding foreign income) = 182 days.

In the above case(iii) if total income exceed 15 lakhs during the previous year will be treated as resident in India if his stay 182 days or more, or he has been in India for at least 120 (instead of 60 days) days in the previous Year & has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more. If stay in India exceed 120 days but less than 182 days then he will be treated as RNOR always. (Don't check additional condition)

CRUX:-

1. Less than 120 days = NR
2. More than 120 days but less than 182 days (i.e., upto 181 days) then RNOR.
3. 182 days or more irrespective of income

Both additional conditions satisfied then ROR (2-year Resident in 10 PPY & 730 days stay in last 7 PPY) otherwise RNOR.

- ✚ **Deemed resident [Section 6(1A)]** - 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 tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature & he is always treated as RNOR.

However, this provision will not apply in case of an individual who is a resident of India in the previous year as per section 6(1).

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

Meaning of "liable to tax" - Liable to tax, means 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.

Points to Remember:



Continuous Stay in India → Not Necessary.



Each block of 24 hours shall be taken as 1 day (less than 24 hours shall be ignored).



Date of Arrival & Departure → Considered to be in India for counting days stayed in India.



Individual can be resident in more than 1 country, but he can be citizen in **ONLY ONE** Country.



Stay in TWI (12M) shall also be considered as stay in India. E.g., Ship or boat.



RULE 126: Clarification regarding FOREIGN BOUND SHIPS where destination of the voyage is outside India [Explanation 2 to Section 6(1)]

Period of Stay in India of an Individual (Indian Citizen) leaving India as a Member of Crew of Foreign Bound ship shall not include the following period in respect of an eligible voyage:

Period Commencing from	Ending on
Date entered into CDC for joining the ship	Date entered into the CDC for signing off.

Eligible voyage: A voyage by a ship engaged in carriage of passengers/freight in international traffic:

(a) For voyage having originated from any port in India → Destination should be any port o/s India.

(b) For voyage having originated from any port o/s India → Destination should be any port in India.

CDC is like an identity card for a sailor. The master of vessel signs the documents each time.

HUF

If Control & Management is situated wholly/partly in India	Resident
If Control & Management is situated wholly outside India	NR

DETERMINATION OF ROR/RNOR

NO NEED TO CHECK BASIC CONDITIONS FOR KARTA

Status of KARTA will determine whether HUF is ROR/RNOR.

✚ If KARTA is ROR → HUF is ROR &

✚ If KARTA is RNOR → HUF is RNOR.

FIRM/AOP/BOI/LA/AJP

If Control & Management is situated wholly/partly in India	Resident
If Control & Management is situated wholly outside India	NR

Meaning of Control & Management (C&M)

✚ C&M refers to Central C&M & not day-to-day business activities by employees, servants, or agents. Business may be done from outside India & yet its C&M may be within India.

C&M is situated at a place where "head & brain" is situated.

✚ C&M → Place where 'Controlling & Directing power' works (with some permanence).

COMPANY

A Company shall be Resident in India if:

1. It is an Indian company; Always RESIDENT
2. POEM is in India in that PY (Other than Indian Company).

POEM: A Place where key management & commercial decisions necessary for the conduct of the business of entity are substantially made.

SCOPE OF TOTAL INCOME [SECTION 5]

INDIAN INCOME

1. **Income Received** or deemed to be received in India OR
2. **Income Accrued / Arise** or deemed to be accrued / Arise in India.

FOREIGN INCOME.

Income which is **NEITHER** received in India **NOR** Accrued / Arise in India. i.e. other than Indian income.

SCOPE OF TOTAL INCOME**(I) INDIVIDUAL / HUF**

Nature of Income	Tax Treatment		
	ROR	NOR	NR
Indian Income	Taxable	Taxable	Taxable
Foreign Income	Taxable	Only 2 types of Foreign Incomes are taxable** Others foreign incomes are not taxable in India.	Not Taxable

**Following Foreign Incomes are taxable in the hands of RNOR:

1. **Business Income** which is controlled wholly/partly from India.
2. **Income from Profession** set up in India.

Note: No other foreign Income (Salary, Rent, Interest etc.) is taxable in India to RNOR.

(II) OTHER ASSESSEE

Nature of Income	Tax Treatment	
	Resident	NR
Indian Income	Taxable	Taxable
Foreign Income	Taxable	Not Taxable

Points to Remember:

 **Indian Income** → Taxable to EVERYONE (R/NR).

✚ ROR → Every Income (Indian/Foreign) is Taxable.

Circular: Clarification regarding liability to Tax in India of NR Seafarer receiving Remuneration in NRE (Non-Resident External) A/c maintained with Indian Bank.

Income by way of salary, received by non-resident seafarers, for services rendered outside India on a foreign going ship (with Indian flag or foreign flag) & received into NRE bank A/c maintained with an Indian bank shall not be included in the total income.

MEANING OF SOME IMPORTANT TERMS

* RECEIPT OF INCOME

Receipt → First occasion(time) when the recipient gets money under his control. Any Further Remittance/Transmission of the received amount to another place/person does not result in "Receipt" in the hands of subsequent recipient.

* Sec 7 Income deemed to be received in India

- (i) Employer's Contribution to RPF in excess of 12% of salary.
- (ii) Interest credited to RPF of the Employee in excess of 9.5% p.a.
- (iii) Amount transferred from URPF to RPF (Employer's contribution & its interest).
- (iv) Contribution made by CG/other employer in the PY under Pension scheme [80CCD] to the account of employee.

* ACCRUAL OF INCOME

✚ Accrue means the right to receive income.

✚ Due means the right to enforce payment of the accrued income.

Examples:

1. Salary for work done in December will accrue throughout the month, day to day, but will become due on the salary bill being passed on 31st Dec or 1st Jan.
2. Interest on Government securities payable on specified dates arise during the period of holding but will become due for payment on specified dates.

Explanation to Section 5.

1. Income accruing/arising outside India shall not be deemed to be received in India merely because it is taken into account in Balance Sheet prepared in India.

2. Income taxed on Accrual basis cannot be assessed again on Receipt basis, as it will amount to double taxation.

* INCOMES DEEMED TO ACCRUE OR ARISE IN INDIA [SECTION 9]

Some Incomes are deemed to accrue/arise in India even though they actually accrue outside India.

1. Income From Business Connection in India

Conditions for Taxability of Income from Business Connection:

- (a) Assessee has a "Business Connection" in India.
- (b) Income arises outside India by virtue of such Business Connection to the assessee.

Note: Even if such income arises outside India, it will be deemed that such income has accrued in India & will be taxable in India.

- Meaning of Business Connection: Business connection includes any Business Activity carried out through a person acting on behalf of NR. Agent must satisfy following conditions to form Business Connection:

- (a) Agent of NR must have Authority to conclude contracts on behalf of NR. Such contract
 - Should be in the name of NR.
 - Should be for Provision of Services by that NR.
 - Should be for the transfer of ownership of Property owned by that NR.
 - Should be for granting of Right to use Property owned by that NR/under control of NR.

- (b) He habitually maintains stock of goods/ merchandise from which he regularly delivers goods/merchandise in India on behalf of NR.

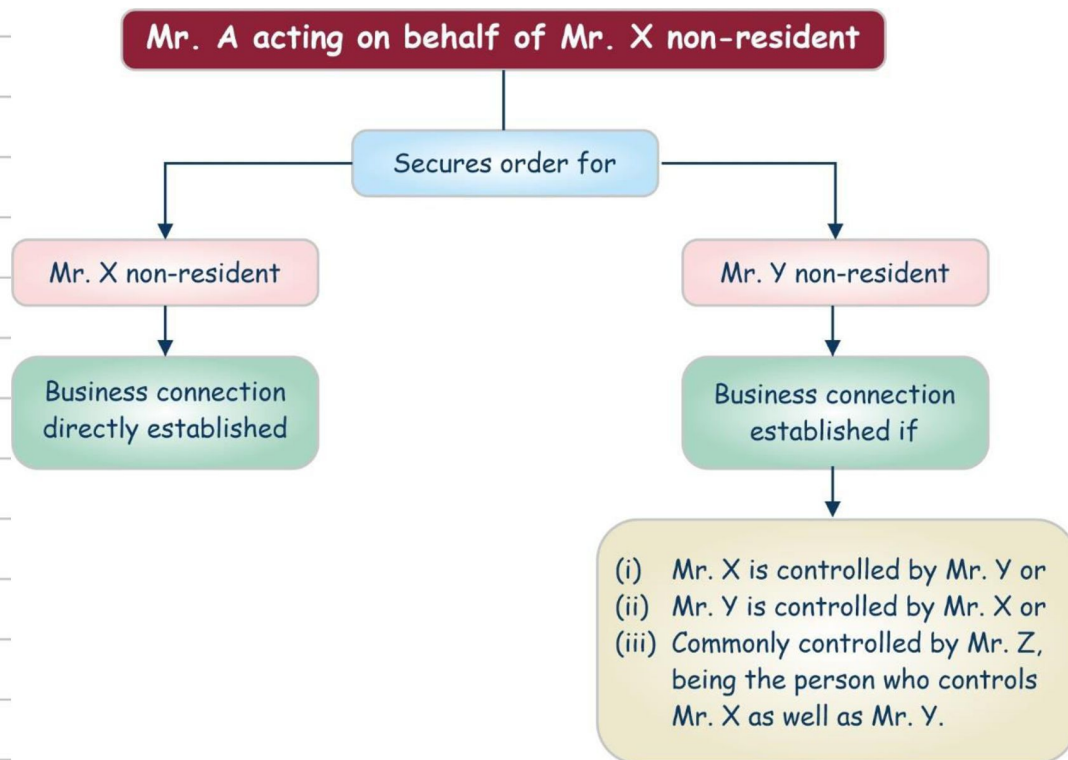
- (c) Where he habitually secures orders in India (mainly or wholly) for NR.

Note: If agent's authority is limited to purchase of goods for NR, NO business connection exists.

ONE AGENT - 2 NR:

There may be situations when a person acting on behalf of NR secures order for another NR too. Business connection for other NR is established if:

- (a) such other NR controls the NR or
- (b) such other NR is controlled by the NR or
- (c) such other NR is subject to same control as that of NR.



Examples of Business Connection:

- (a) Branch office in India or Agent of a NR in India or an organization/factory of a NR in India.
- (b) Appointing an agent in India for systematic & regular purchase of Raw Material or for sale of NR's goods for other business purpose.
- (c) Formation of subsidiary company in India to carry on business of NR parent company.
- (d) Any profit of NR which can be reasonably attributable to such part of operations carried out in India through business connections in India are deemed to be earned in India.

Independent Agent: Agent who do not work mainly or wholly for NR: Where NR carries on business through broker/commission agent, there will be NO business connection if such a person is acting in ordinary course of his business. E.g., OYO, Agoda, Booking.Com.

2. **Significant Economic Presence of NR in India constitutes Business Connection**

Deemed Business Connection

	Nature of transaction	Condition
(a)	In respect of any goods, services or property carried out by a non-resident with any person in India including provision of download of data or software in India	Aggregate of payments arising from such transaction or transactions during the previous year should exceed ₹ 2 crores.
(b)	Systematic and continuous soliciting of business activities or engaging in interaction with users in India	The number of users should be at least ₹ 3 lakhs

Above transactions [(a) & (b)] shall constitute significant economic presence in India, whether or not

- (i) Agreement for such transactions or activities is entered in India;
- (ii) NR has a residence or place of business in India; or
- (iii) NR renders services in India.

However, where a business connection is established by reason of significant economic presence in India, only so much of income as is attributable to the transactions or activities referred to in (a) or (b) above shall be deemed to accrue or arise in India.

Note: This provision has been inserted to cover digitalized businesses, which do not require physical presence of itself or any agent in India within the scope of section 9(1)(i).

FOLLOWING SHALL NOT BE TREATED AS BUSINESS CONNECTION IN INDIA

- (a) Purchase of Goods in India for Export by NR

- (b) Collection of News & Views in India for transmission out of India by NR
- (c) Shooting of Cinematograph films in India by NR
Income from operations confined to shooting of any cinematograph film in India, if such NR is:
- (i) Individual, who is not a citizen of India or
 - (ii) Firm which does not have any partner who is a Citizen of India or who is Resident in India;
 - (iii) Company which does not have any Shareholder who is a Citizen of India or who is Resident in India.
- (d) Display of Rough Diamonds in SNZ by Foreign Company.
Income from the activities carried out by Foreign Company which are confined to display of uncut & unassorted diamonds (without any sorting or Sale) in any SNZ notified by CG.

3. INCOME FROM PROPERTY OR ASSET OR SOURCE OF INCOME IN INDIA

Income from Property/Asset situated in India → Deemed to accrue in India.

Ex: Rent paid o/s India for use of machinery/buildings situated in India is deemed to accrue in India.

Ex: Deposits with an Indian company for which interest is received o/s India.

4. CAPITAL GAIN ON TRANSFER OF A CAPITAL ASSET SITUATED IN INDIA

✚ Capital Gain on Transfer of Capital Asset situated in India is deemed to accrue in India even if: - Place of Registration of Document of Transfer is in India or outside India; &

✚ Place of Payment of consideration for transfer is in India or outside India.

✚ Capital Asset (being Share/Interest in a company registered or incorporated outside India) shall be deemed to be situated in India, if Share/Interest derives its value substantially from the assets located in India.

5. Dividends paid by Indian company outside India → Deemed to Accrue in India.

E.g., Elon Musk (NR) invested in TaTa Motors (R) & TaTa motors pay dividend to Elon Musk.

6. INCOME FROM SALARIES

✚ Salary is deemed to accrue/arise at the place where the services are rendered.



Salaries payable by **Government to a citizen of India** for services rendered outside India would be deemed to accrue India (even if services are rendered outside India). However, Allowances & Perquisites paid outside India by Government are exempt u/s 10(7).

Exception u/s 9(2): Pension payable outside India by the Government to its officials & judges who permanently reside outside India shall not be deemed to accrue or arise in India.

7. INTEREST, ROYALTY, FEES FOR TECHNICAL SERVICES PAID TO NON-RESIDENT

Interest, royalty, FTS is deemed to accrue/arise in India if it is:

- (i) Payable by Government of India (CG/SG): deemed to accrue/arise in India
- (ii) Payable by Resident: Always deemed to accrue/arise in India

Exceptions: [In following cases, income is not deemed to accrue in India]

- If borrowed money is used by the payer of interest {R} for a **business/profession carried on outside India** or for earning any income from the source outside India.
- Payment of Royalty or Technical fees related to a **Business/profession carried on by the payer outside India** or for earning any income outside India.
- (iii) Payable by Non- Resident: deemed to accrue/arise in India in below cases only.
 - If borrowed money is used by the payer of Interest (NR) for a business/profession carried on in India ~~or for earning any income in India.~~
 - Payment of Royalty or FTS related to a Business/profession carried on by the payer in India or for earning any income in India.

Exception: Interest on money borrowed by NR for any purpose other than business or profession in India will NOT be deemed to accrue or arise in India.

Ex: If a NR 'A' borrows money from a non-resident 'B' & invests the same in shares of an Indian company, interest payable by 'A' to 'B' will not be deemed to accrue or arise in India.

Note: Income by way of Interest, Royalty, FTS from services utilized in India would be deemed to accrue in India in case of a NR & be included in his total income, whether or not such services were rendered in India & whether or not NR has a residence or place of business or business connection in India.

Note:

1. Lumpsum royalty not deemed to accrue / arise in India in respect of Computer software.
2. Consideration for use or right to use of computer software is covered under royalty.
3. if property transferred & taxable under capital gain then it will not cover under royalty.
4. **Meaning of Royalty:** The term 'royalty' means consideration (including any lumpsum consideration but excluding any consideration which would be the income of the recipient chargeable under the head 'Capital gains') for:
 - (i) the transfer of all or any rights (including the granting of licence) in respect of a patent, invention, model, design, secret formula or process or trade mark or similar property;
 - (ii) the imparting of any information concerning the working of, or the use of, a patent, invention, model, design, secret formula or process or trade mark or similar property;
 - (iii) the use of any patent, invention, model, design, secret formula or process or trade mark or similar property;
 - (iv) the imparting of any information concerning technical, industrial, commercial or scientific knowledge, experience or skill;
 - (v) the use or right to use any industrial, commercial or scientific equipment²;
 - (vi) the transfer of all or any rights (including the granting of licence) in respect of any copyright, literary, artistic or scientific work including films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting.
Note: Consideration for sale, distribution or exhibition of cinematographic films is covered within the scope of royalty.
 - (vii) the rendering of any service in connection with the activities listed above.
5. **Meaning of Fees for technical services** means any consideration (including any lumpsum consideration) for the rendering of any managerial, technical or consultancy services (including providing the services of technical or other

personnel). However, it does not include consideration for any construction, assembly, mining or like project undertaken by the recipient or consideration which would be income of the recipient chargeable under the head 'Salaries'

8. MONEY PAID BY RESIDENT INDIAN TO A NR (NON-CORPORATE)/FOREIGN COMPANY

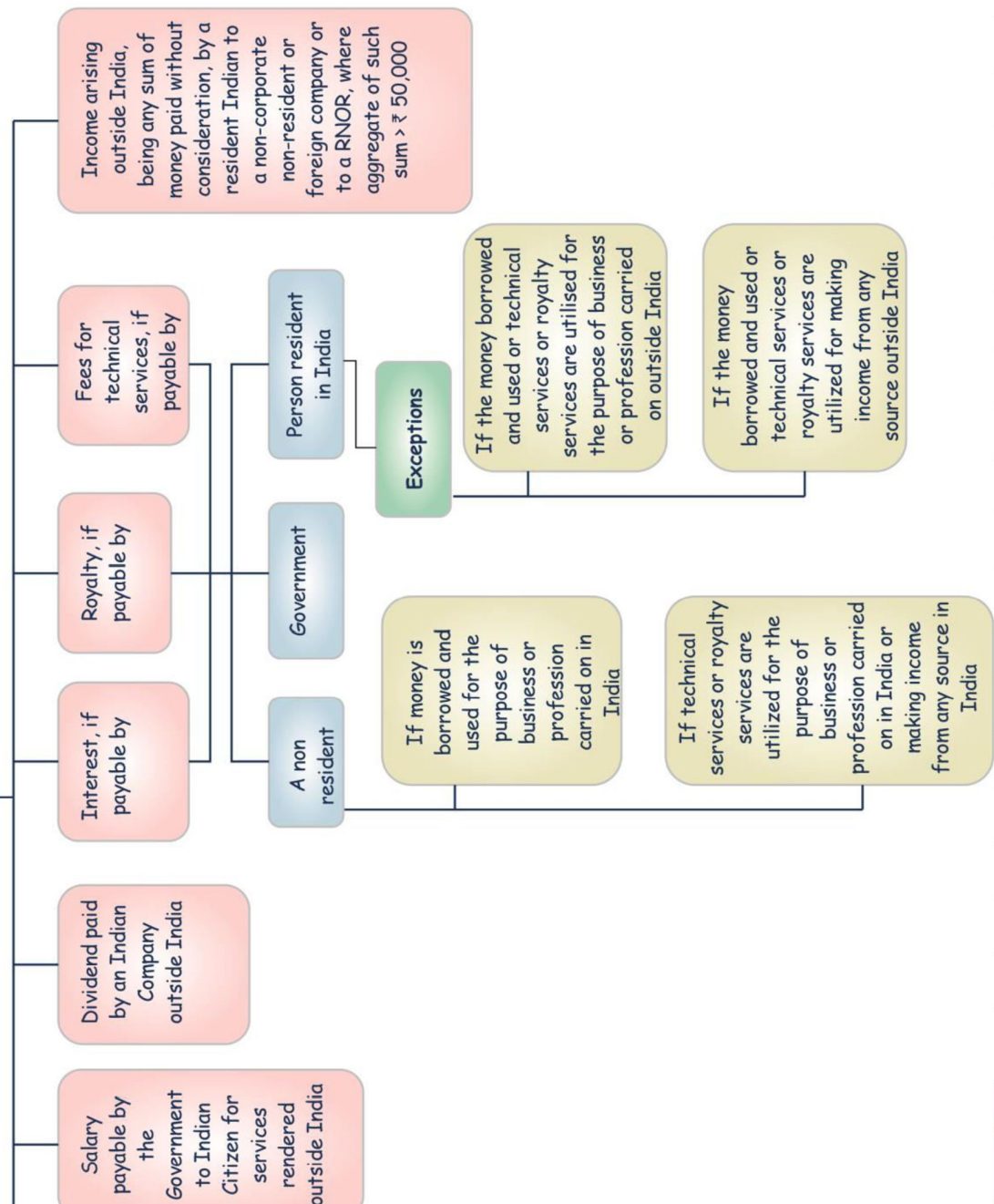
Any sum of money paid (without consideration) by Indian resident person to a NR (non-corporate) or foreign company on or after 5.7.2019

would be deemed to accrue or arise in India if the same is chargeable to tax u/s 56(2)(x).

Section 56(2)(x): If aggregate sums received exceeds ₹ 50,000 in a FY.

RESIDENCE AND SCOPE OF TOTAL INCOME

Income deemed to accrue or arise in India [Section 9(1)]



NOTES

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CHAPTER 03

Agricultural Income

AGRICULTURAL INCOME [SECTION 10(1)]

Agricultural income is Exempt from Tax because CG has NO Power to levy tax on such Income.

Definition of Agricultural Income [Section 2(1A)]

- ✚ It covers income of not only cultivators but also the land holders who might have rented out lands.
- ✚ Agricultural Income consists of:
 1. Rent/Revenue derived from letting of land situated in India & used for agricultural purposes. Rent: Rent received by the original tenant from sub-tenant would also be agricultural income. Revenue: fees received for renewal of lease of land would be revenue derived from land.

Note: If agricultural land is situated in foreign country, Agricultural Income is taxable u/h IFOS.

2. Income derived from Agriculture or other related activities. (Agriculture Produce)

Basic operation = Necessary for the purpose of raising produce from the land

Subsequent operation = Performed after the produced sprouts from the land i.e., in conjunction with and as a continuation of the basic operation.
3. Agricultural income may be derived from farm building required for agriculture operations.

Building should be on or in the immediate vicinity of the land &

Farm building used as dwelling house or as a store house.

Note: Income arising from use of farm building for any purpose (Ex: Letting for residential purpose or for business/profession) other than agriculture referred in (1) & (2) above would not be agricultural income.

4. Income from saplings/seeds grown in Nursery (whether/not basic operations were carried out on land). Some Examples of Agricultural Income & Non-agricultural Income:

AGRICULTURAL INCOME	NON-AGRICULTURAL INCOME
Income derived from the sale of seeds.	Income from breeding of livestock.
Income from growing of flowers &	Income from poultry farming.

creepers.

Rent received from land used for grazing of cattle required for agriculture activities.

Income from fisheries.

Income from growing of bamboo.

Income from dairy farming.

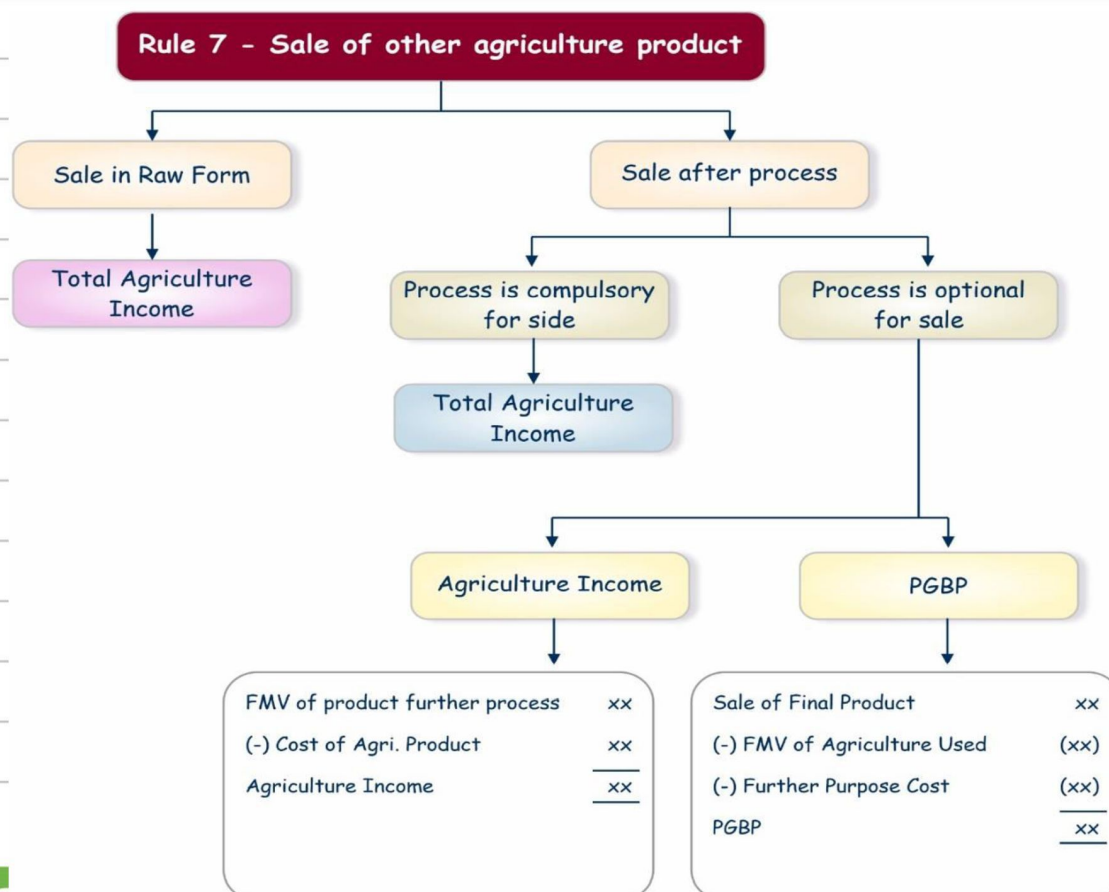
QUESTION 1

Discuss whether Rent Received for letting out Agricultural land for a Movie shooting & amounts Received from Sale of seedlings in Nursery adjacent to Agricultural Land owned by Assessee can be regarded as Agricultural Income.

ANSWER :

Rent for Movie shooting: It is not an Agricultural Income, since it is not Income derived 'through Agriculture'. This constitutes Rental Income for 'non - agricultural purposes.

Sales of seedlings in Nursery: Income from Sale of Plants & Seedlings grown in Posts in Nursery constitutes Agricultural Income. However, in this case, such income is not derived from agricultural land, but from a Nursery 'adjacent' to it. Hence, it does not constitute Agricultural Income.



QUESTION 2

Mr. B grows sugarcane & uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lacs & cost of cultivation of such sugarcane is ₹ 5lacs. Cost of cultivation of 70% is ₹14 lacs & market value of the same is ₹ 22 lacs. After incurring ₹1.5 lacs in manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lacs. Compute B's business income & agricultural income.

ANSWER:

Income from sale of sugarcane is agricultural income & Income from sale of sugar is business income. Business income = Sale proceeds - MV of 70% of sugarcane (used in manufacture of sugar) - Manufacturing expenses = ₹ 25 lacs - ₹ 22 lacs - ₹ 1.5 lacs = ₹ 1.5 lacs. Agricultural income = Market value of sugarcane produce - Cost of cultivation = [₹ 10 lacs + ₹ 22 lacs] - [₹ 5 lacs + ₹ 14 lacs] = ₹ 13 lacs.

DETERMINATION OF MARKET VALUE

(i) If Agricultural produce is capable of being sold in market as such/after ordinary processing	Market value = Value calculated at Average price at which it has been sold during relevant PY.
(ii) If Agricultural produce is incapable of being sold in market as such/after ordinary processing	Market Value = Cultivation Expenses + Rent paid for Land in which it was grown + Such profit as AO thinks to be reasonable.

QUESTION 3

Z Ltd. grows sugarcane to manufacture sugar. The data for the PY 2022-23 is as follow:

1. Cost of cultivation of sugarcane 6,00,000
2. Market value of Sugarcane when transferred to factory 10,00,000
3. Other manufacturing cost 6,00,000
4. Sale of sugar 25,00,000
5. Salary of Managing Director who looks after all operation of the company 3,00,000

Determine the Income of the company.

ANSWER :

Particulars	(₹)	(₹)
1. Profit & Gain of Business or Profession:		
Sales of sugar		25,00,000
Less		
Average Market Value of Sugarcane	10,00,000	
Salary to Managing Director	3,00,000	
Manufacturing Cost	6,00,000	(19,00,000)
Business Income		6,00,000
2. Computation of Agricultural Income :		
Market Value of Sugarcane		10,00,000
Less: Cost of Cultivation		(6,00,000)
Agricultural Income		4,00,000

APPORTIONMENT OF INCOME B/W BUSINESS INCOME & AGRICULTURE INCOME

Rule	Apportionment of Income in certain cases	Agriculture	Business
7A	Income from growing & manufacturing of rubber / Latex / Cenex	65%	35%
7B	Income from growing & manufacturing of coffee		
	Income derived from sale of coffee grown & cured	75%	25%
	Income derived from sale of coffee grown, cured, roasted & grounded	60%	40%
8	Income from growing & manufacturing of tea	60%	40%

Higher % will always indicate that income from Agriculture.

Note: Above bifurcation should be done after PGBP deduction eg Depreciation Assume total income of assessee from business only for depreciation purpose. Total Depreciation minus from WDV of Block.

QUESTION 4

Mr. J manufactures latex from the rubber plants grown by him in India. These are then sold in the market for ₹ 30 lacs. Cost of growing rubber plants is ₹ 10 lacs & that of manufacturing latex is ₹ 8 lacs. Compute his total income.

ANSWER:

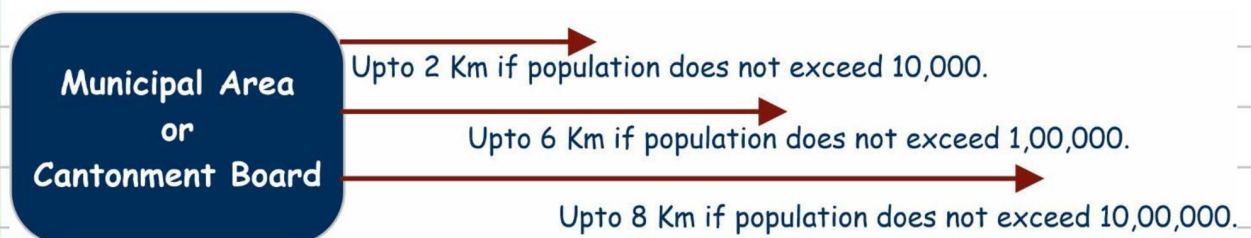
The total income of Mr. J comprises of agricultural income & business income. Total profits from the sale of latex = ₹ 30 lacs - ₹ 10 lacs - ₹ 8 lacs = ₹ 12 lacs. Agricultural income = 65% of ₹ 12 lacs = ₹ 7.8 lacs; Business income = 35% of ₹ 12 lacs. = ₹ 4.2 lacs.

Agriculture Land

There are 2 types of agricultural land

(1) Urban, (2) Rural

The urban land is not defined but rural land is defined.



Population means according to the census published before the first day of the previous year.

E.g.: - Distance 0 to 2 KM & population less than 10,000. = Rural

Distance 0 to 2 KM & population more than 10,000. = Urban

Distance 2 to 6 KM & population less than 1,00,000. = Rural

Distance 2 to 6 KM & population more than 1,00,000. = Urban

Distance 6 to 8 KM & population less than 10,00,000. = Rural

Distance 6 to 8 KM & population more than 10,00,000. = urban

PROFIT ON TRANSFER OF URBAN AGRICULTURAL LAND:

Whether Agricultural Income?

No, as per Explanation to section 2(1A), CG arising from the transfer of urban agricultural land would not be treated as agricultural income u/s 10 but will be taxable u/s 45.

Ex: If I sell agricultural land situated in Mumbai for ₹ 10 lacs & make profit of ₹ 8 lacs over its COA. This surplus will not be an agricultural income exempt u/s 10(1). It will be taxable u/s 45 since it is urban agricultural Land & thus it is a capital asset.

PARTIAL INTEGRATION OF AGRICULTURAL INCOME WITH NON-AGRICULTURAL INCOME

There exists an Indirect way of taxing agricultural income.

It is known as partial integration of non-agricultural income with agricultural income.

Objective of PIT	Tax the non-agricultural Income at higher rates.
Applicability of PIT	Individuals, HUF, AOP/BOI & artificial persons. [Company & Firms]
Conditions for Partial Integration	1. Net Agricultural Income should exceed ₹ 5,000 p.a. & 2. Non-Agricultural Income should exceed BEL.

STEPS for calculation of tax in case of PIT

1. Calculate Tax on Net Agricultural Income + Non-Agricultural Income. (Total Income)
2. Calculate Tax on Net Agricultural Income + BEL.
3. Income tax Calculated in Step 1 - Income Tax calculated in Step 2.
4. Sum arrived in Step 3 shall be increased by SC (if applicable) & reduced by rebate u/s 87A.
5. Add Health & Education cess @ 4%.

QUESTION 5

Mr. X, a resident, has provided the following particulars of his income for PY 2022-23:

Income from salary (computed)	₹ 1,80,000
Income from house property (computed)	₹ 2,00,000
Agricultural income from a land in Jaipur	₹ 2,80,000
Expenses incurred for earning agricultural income	₹ 1,70,000

Compute his tax liability assuming his age is (a) 45 years; (b) 70 years.

ANSWER:

Net Agricultural Income = ₹ 2,80,000 - ₹ 1,70,000 = ₹ 1,10,000

(a) Computation of tax liability (Age 45 years)

Step 1	Tax on ₹ 4,90,000 (₹ 3,80,000 + ₹ 1,10,000) = ₹ 12,000.
Step 2	Tax on ₹ 3,60,000 (₹ 1,10,000 + ₹ 2,50,000) = ₹ 5,500.
Step 3	₹ 12,000 - ₹ 5,500 = ₹ 6,500
Step 4 & 5	₹ 6,500 Rebate u/s 87A Tax= Nil

(b) Computation of tax liability (Age 70 years)

Step 1	Tax on ₹ 4,90,000 (₹ 3,80,000 + ₹ 1,10,000) = ₹ 12,000.
Step 2	Tax on ₹ 4,10,000 (₹ 1,10,000 + ₹ 3,00,000) = ₹ 8,000.
Step 3	₹ 12,000 - ₹ 8,000 = ₹ 4,000
Step 4 & 5	₹ 4,000 Rebate u/s 87A Tax= Nil

Loss from Agriculture Income Agriculture loss shall be set-off against agriculture income only. If such loss could not be set off in that P.Y then carry forward and set-off max upto 8 year against agriculture only.

NOTES

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