

*Handwritten Notes*

# *Income Tax*

*For CA Intermediate*

*(New Syllabus)*

*AY 24-25*



**By CA Pooja Kamdar Date**

Name of the Student	
Mobile Number	

*This book .....*

- Is applicable for May 24 and November 24 Attempt.*
- Is updated as per law including circulars & notification.*
- Chapters are divided into concepts for better understanding.*

Dear students,

Welcome to the PKD Family!!

Students, congratulations on your success in CPT/ Foundation!

With tremendous love and affection I dedicate this book to the students.

**Students I have been in the teaching field for the last 21 years.** I would like to share my journey with you. I have been a science student and did not have any background of commerce, let CA alone. I learnt every subject from the scratch and that's when I realized the **importance of conceptual learning**. So if your fundamentals are clear you can definitely crack the exam.

I don't believe in the terms average student or brilliant student or above average student. I only understand the term **"Hardworking students"**.

So if you are ready to work hard and **follow the principles of 3C's** we can achieve great results. Conceptual clarity, commitment and thereby gaining confidence for the exam. **I am not saying that your journey is going to be easy but it is going to be worth it.** In this journey of yours I shall be there with you. Even in your study leave we shall stay connected. You can Whatsapp us for any queries relating to tax on 78878 75075

Students while preparing these notes I have divided the chapters into concepts. Remember the questions in the exams are not chapter wise but based on the concepts. Also I have inserted some important and interesting quotes from the budgets. **So lets just not have a theoretical understanding but a practical approach for studies thus making learning fun.**

We shall be giving you the following books:

- Rambaan (Handwritten Income Tax Notes)
- Prashna Manjusha (Question Bank)
- Saaranish (Summary Charts)
- Compiler

Happy Learning!!

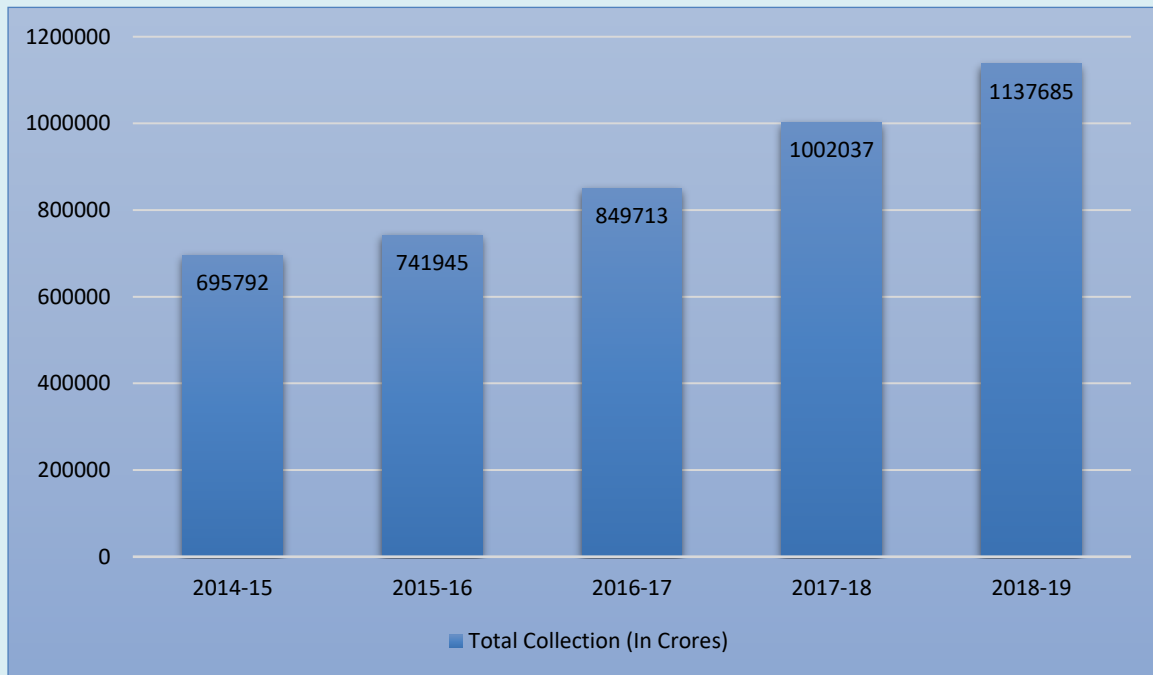
CA Pooja Kamdar Date.

# Act applicable to us!

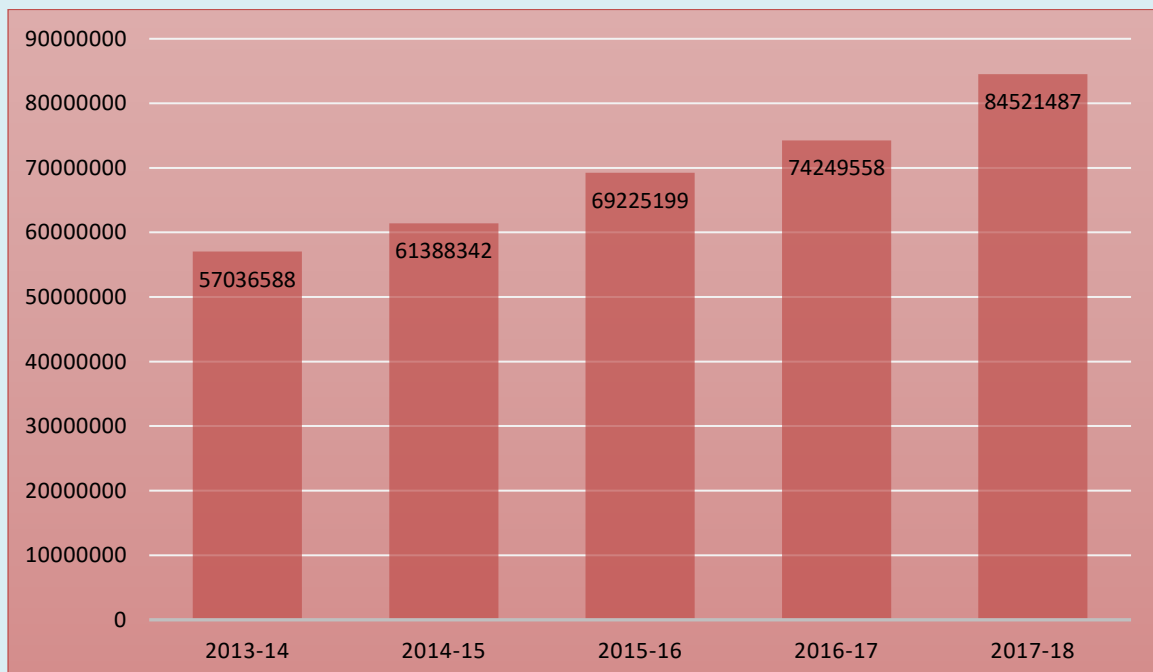


- *The Second Female Finance Minister after Indira Gandhi but First full time female Finance Minister.*
- *Presented the following budgets :*
  - *2019-2020*
  - *2020-2021*
  - *2021-2022*
  - *2022-2023*
  - *2023-2024*

# Direct Tax Collection:

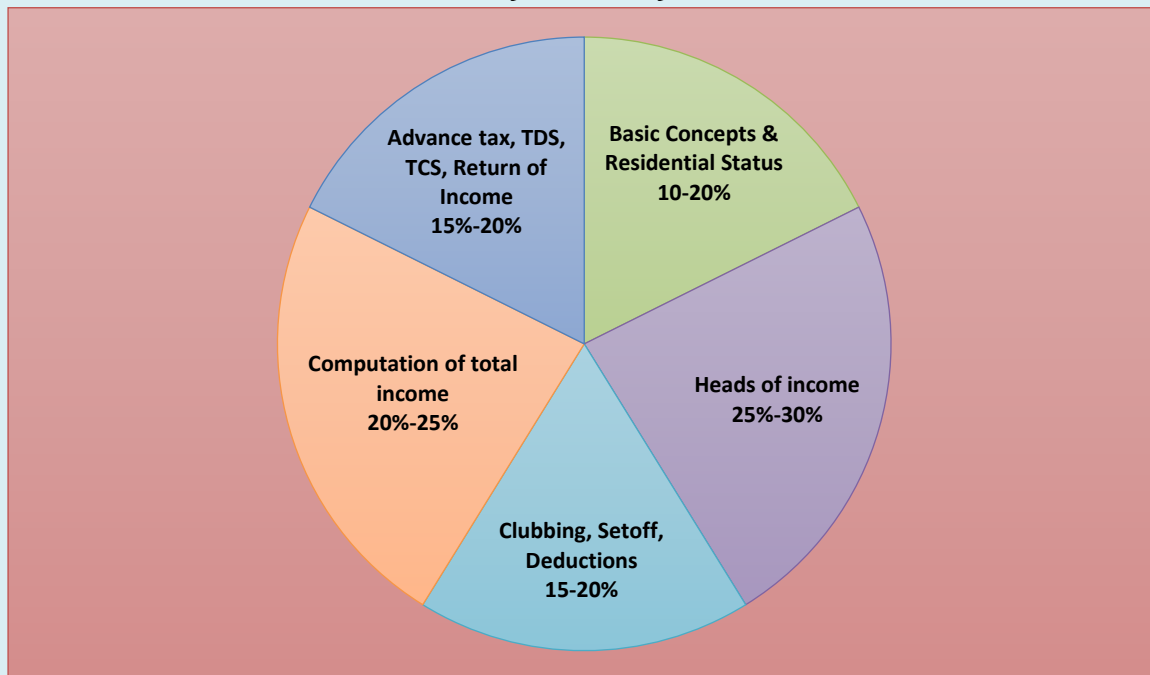


# Number of Tax Payers:



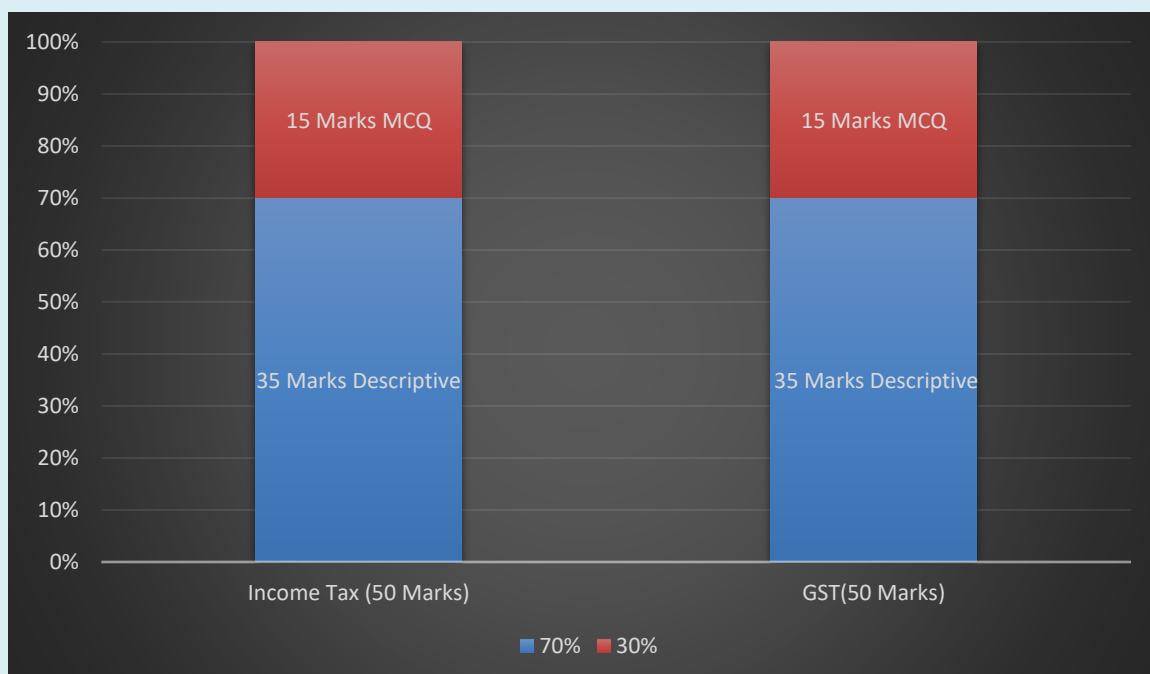
A "Taxpayer" is a person who either has filed a return of income for the relevant Assessment Year (AY) or in whose case tax has been deducted at source in the relevant Financial Year but the taxpayer has not filed the return of income.

# Chapterwise Weightage As Per ICAI:



*\*\*Subject to changes as per ICAI Notification*

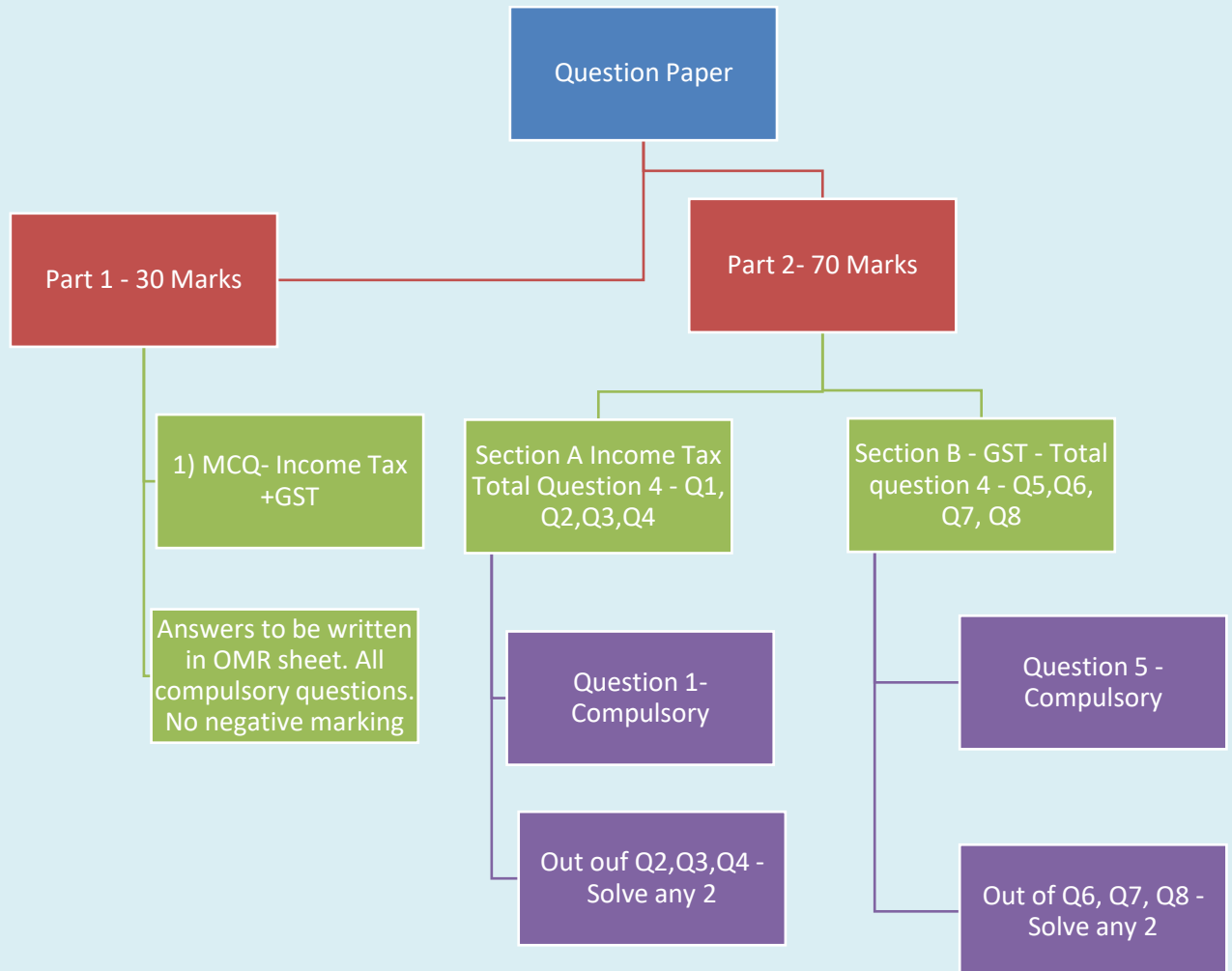
## 70:30 Paper Pattern



*\*\*Subject to changes as per ICAI Notification*

# Paper Pattern & Instruction for Examinees:

\*\* (Reference of Old Course)



## Remember..!!

1. Solve the paper using black ink ball point pen only.
2. Use of Scientific calculator is not allowed in the examination
3. Income Tax and GST Questions should be solved in 2 separate answer books.
  - a. Section A : Income Tax
  - b. Section B: GST

Black & White Day



AIR 1 - Rekha Suthar

Classroom Scene



Christmas Celebration



Another Black & White Day



Students of May 2023 Batch



PKD Students, PKD's Pride!!



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## Contents of Chapter

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C8- Rates of Tax for individuals
C9- Concept of Marginal Relief
C10- Lets have a look at the tax liability of other persons
C11- Special tax rates
C12- MMR and AR

### Concept 1: Basic concepts:

#### 1.1) What is Tax and Why are taxes levied?

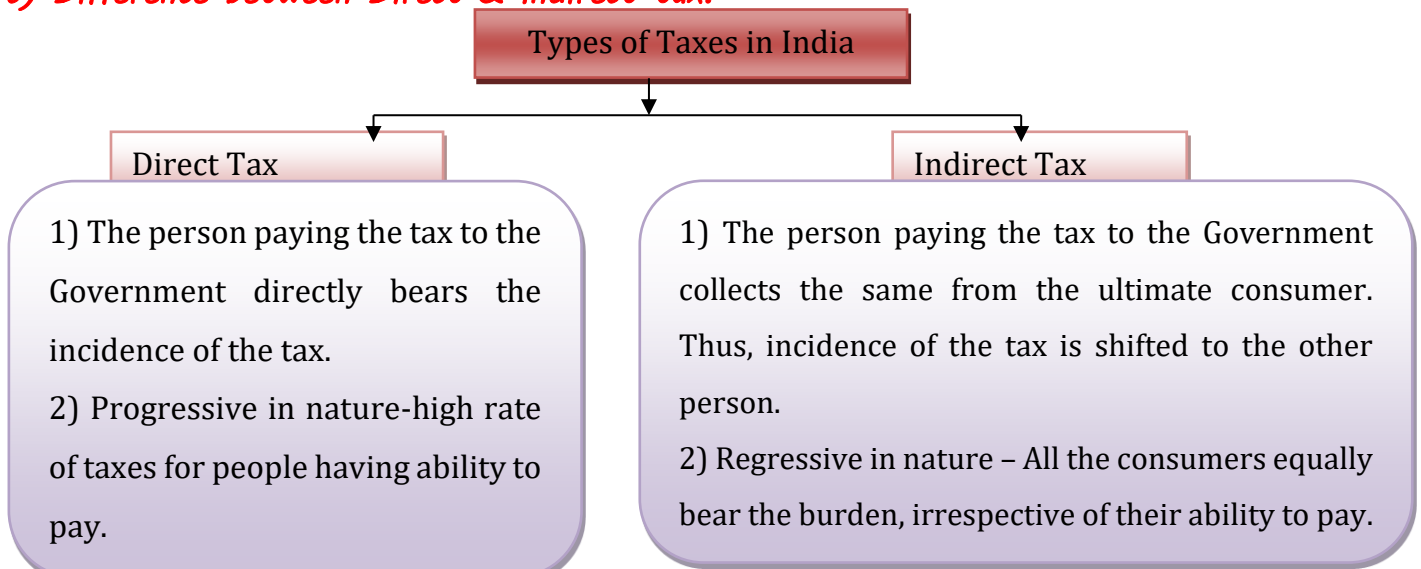
Tax is your contribution to Government from your Income. It is a fee charged by the Government on a product, income or activity. There are two types of taxes - direct and indirect taxes. Taxes constitute the basic source of revenue to the Government. Revenue raised is used to meet the expenses of the government like defense, providing education, infrastructure facilities.

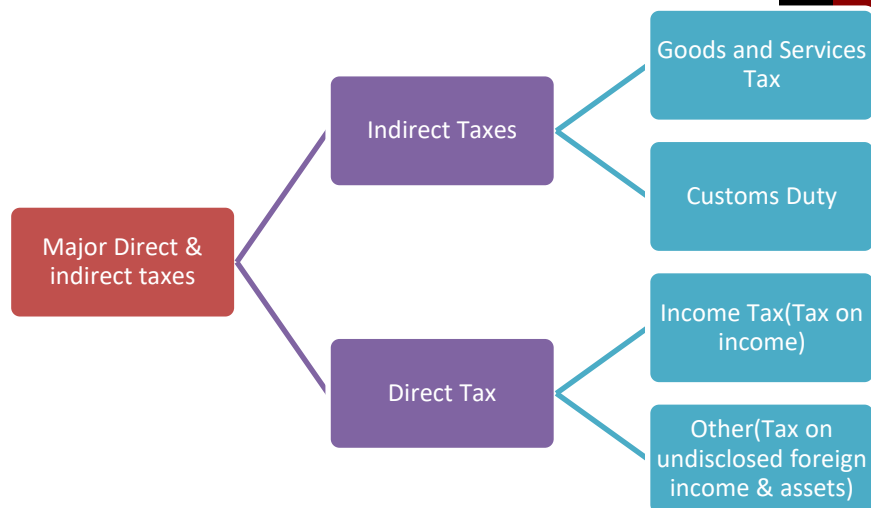
#### 1.2) Different types of taxes: Direct Tax and Indirect Tax

a) **Direct Tax** : It is levied directly on the income of the person

b) **Indirect Tax** : It is levied on the price of a good or service

c) **Difference between Direct & Indirect tax:**





### 1.3) How and who derives its power to levy tax from the Constitution of India

Article 246 of the Constitution empowers the State and Union Government to levy taxes the Constitution contains the following three lists under which the Union and State Government have the authority to make laws for the purpose of levy of taxes The following are the lists contained in Article 246:

- i) **Union List: Central Government** has the exclusive power to make laws on the matters contained in Union List.
- ii) **State List: State Government** has the exclusive power to make laws on the matters contained in the State List.
- iii) **Concurrent List: Both Central and State Governments** have the power to make laws on the matters contained in the Concurrent list. **Entry No 82** of the Union List has given the power to the Central Government to levy taxes on Income i.e. Income Tax

### 1.4) Since When ?- History of Income Tax:

- 1) **Kings Levied Taxes** on Artists, Farmers & Traders etc. Taxes were to be paid in form of gold coins, cattle, grains and raw material.
- 2) Income tax was **first introduced in 1860** by James Wilson who was the then Finance Member of British Government.
- 3) The levy of income-tax in India is governed by **the Income-tax Act 1961**. In this book we shall briefly refer to this as the Act.
  - a) It came into force on **1st April, 1962**.
  - b) It contains 298 sections and XIV schedules.
- 4) **Every year, the Finance Minister** of the Government of India introduces **the Finance Bill** in the Parliament's Budget Session. When the Finance Bill is **passed by both the houses of the Parliament** and **gets the assent of the President**, it becomes **the Finance Act**. **Amendments are made every year** to the Income-tax Act, 1961 and other tax laws by the Finance Act.

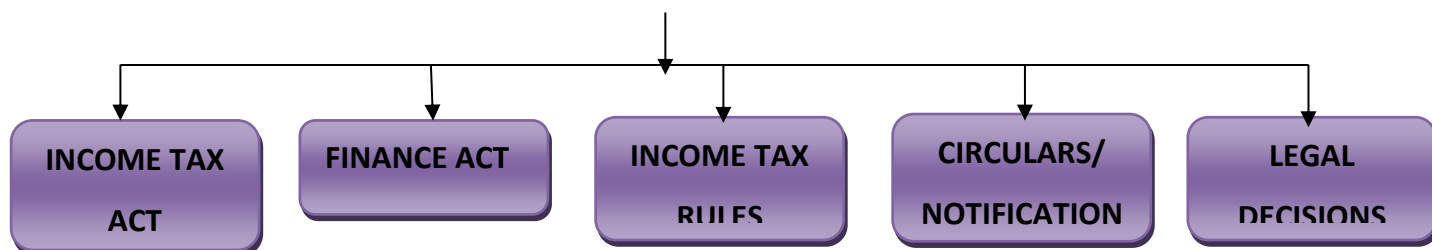
## 1.5) Who will pay Income tax?

Every person who earns income will pay Income Tax (subject to some conditions)

## Concept 2: Components of Income Tax

### 2.1) Components of income Tax Law

#### Components of Income Tax law



#### Income-tax Act

The levy of Income tax in India is governed by the **Income-tax Act, 1961**. This Act came into force on **1st April 1962**. The Act contains **298 sections and XIV schedules**. These sections and schedules undergo changes every year with additions and deletions brought about by the Finance Act passed by the Parliament. Know the Income Tax Act on detail in the next page.

#### Finance Act

Part A of the budget speech given by the finance minister every year contains the proposed policies of the government in the Fiscal areas. Part B of the budget speech contains detailed tax proposals. **Once the Finance Bill is approved by the Parliament and gets the assent of the President, it becomes The Finance Act.**

#### Income Tax Rules

The Central Board of Direct Taxes (**CBDT**) is empowered to make rules for carrying out the purposes of the Act. These rules which are framed from time to time for the proper administration of the Income Tax Act are known as the Income tax rules, 1962.

#### Circulars and Notifications

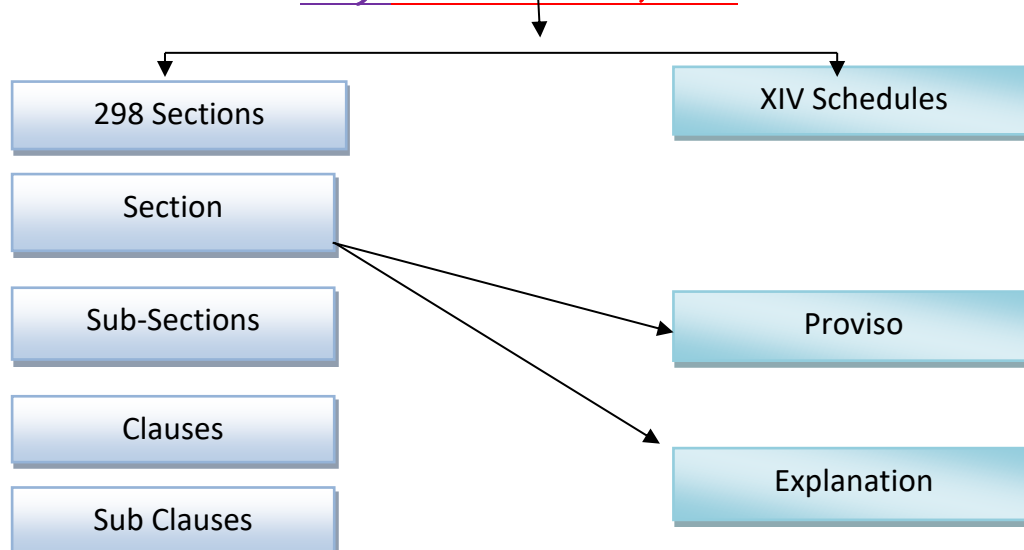
**Circulars are issued by the CBDT** to address certain problems and clarify doubts regarding the scope and meaning of the provisions. Circulars are issued for the guidance of the officers and/or Assessee. Circulars are not binding on the assessee, but they can take advantage of beneficial Circulars. **Notifications** are issued by the Central Government to give effect to the provisions of the Act. The CBDT is also empowered to make and amend rules for the purposes of the Act by issue of notifications.

#### Case Laws

The judiciary hears cases of **disputes between assessee and the department** and gives decisions on various issues. These are known as case laws and can be referred in future

disputes. The law laid Down by the Supreme Court is the law of the land. Decisions made by High courts will apply to the Specific States.

## 2.2) Income Tax Act, 1961



## 2.3) Examples

I) Section 2: defines terms used in Income Tax Act.

1) Clause 1A of Section 2:- Defines agricultural Income  
 2) Clause 1B of Section 2:- Defines amalgamation

II) Section 10: Exemption

1) Clause 1 of section 10-10(1):- exempts agricultural Income

2) Clause 2 of section 10-10(2):- exempts scheme of Income of member from HUF

III) Sections can have sub sections

IV) Proviso and Explanation:

1) **The proviso** to a section/sub-section/clause **spells out the exception** to the provision contained in the respective section/sub-section/clause

2) **The Explanation** to a section/sub-section/clause **gives a clarification** relating to the Provision contained in the respective section/sub-section/clause

## Concept 3: Some Important Sections of the Act

Section 1	The Act shall be called as Income Tax Act 1961
	It shall come into force from 1st April 1962
	It Extends to whole of India
Section 4	This is the charging section of the Act
Charging	1. Income Tax is Payable For
Section	2. Any Assessment Year
	3. At the rate specified in Annual Finance Act
	4. In respect of total income of
	5. Any person In the previous year

**Concept4: So what exactly are we going to learn?**

4.1) Income tax is levied on assessee's total income. Such total income has to be computed as per the provisions contained in the Income Tax Act, 1961.

4.2) Income Tax Act prescribes five heads of income

(Whereas you have unlimited sources of earning income)

**The First Schedule to the Finance Act 2023 contains four parts which specify the rates of tax**

1) Part I of the First Schedule to the Finance Act 2023 specifies the rates applicable for the Assessment year 2023-24

2) Part II specifies the rate at which tax is to be deducted at source for the current financial year 2023-24.

3) Part III gives the rates for calculating income tax for deducting tax from income chargeable under the head "Salaries" and computing advance tax for the financial year 2023-24.

Note: Part III of the First Schedule to the Finance Act, 2024 will become Part I of the First Schedule to the Finance Act, 2024 and so on.

4) Part IV gives the rules for computing the net agricultural income.

**4.3)**

Computation of Total Income	XXX
Salaries (Sec 15 to 17)	XXX
Income from HP (Sec 22 to 27)	XXX
PGBP(Sec 28-44)	XXX
Capital Gains (45-55)	XXX
IOS(56-59)	XXX
Gross Total Income	XXX
(-)deductions under chapter VI A	XXX
Net Taxable Income	XXX
Tax	XX
Less: Rebate if any u/s 87A / Add: Surcharge	XX
Tax less rebate / Tax plus Surcharge	XX
Add: Health & Education Cess	XX
Tax liability	XX
Less :	XX
Tax payable / refundable	XX

## 4.4) What about legal Income? What about illegal Income?

Whether income is legal or illegal it shall be taxable.

## 4.5) Who will pay Income tax?

**Every person who earns income will pay Income Tax (subject to some conditions)**

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

- 1) An Individual
- 2) A Hindu Undivided Family (HUF)
- 3) A company
- 4) A firm
- 5) An AOP or a BOI, whether incorporated or not
- 6) A local authority, and
- 7) Every artificial juridical person e.g. an idol or deity

**Lets understand point 4.5 in detail**

### 1) Individual

i. 'Individual' means only a **natural person**, i.e. human being.

ii. It includes both **males** and **females**.

iii. It also includes a **minor or a person of unsound mind**. In such a case assessment is made on the guardian or the manager of the minor or the lunatic person.

### 2) HUF

1. Under the income-tax Act, 1961, a Hindu undivided family (HUF) **is treated as a separate entity**.

2. Therefore, **income-tax is payable by a HUF**.

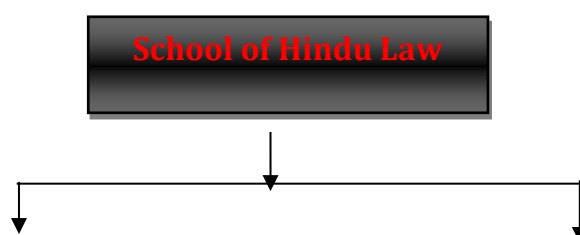
3. HUF has not been defined under the Income-tax Act.

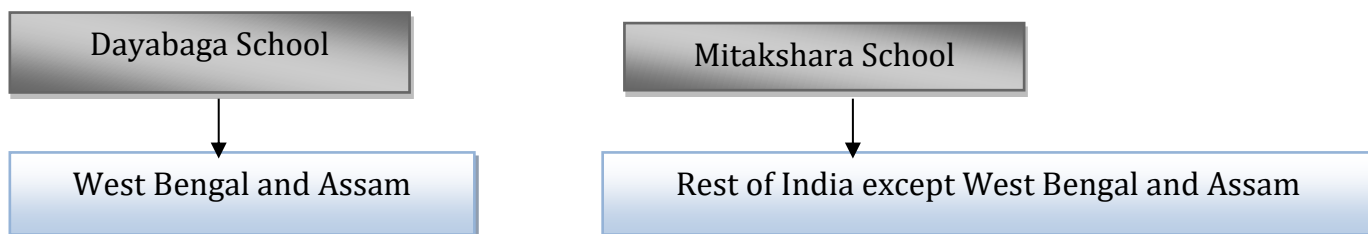
4. It means a family, which consist of all males lineally descended from a common ancestor and includes their wives and daughter.

5. Some members of the HUF are called co-parceners.

6. Earlier, only male descendents were considered as coparceners. With effect from 6th September, 2005, daughters have also been accorded coparcenary status. It may be noted that only the coparceners have a right to partition.

7. Under the Income-tax Act, 1961, **Jain undivided families and Sikh undivided families** would also be assessed as a HUF.





<i>Dayabaga School</i>	<i>Mitakshara School of Hindu Law</i>
<i>Prevalent in West Bengal and Assam</i>	<i>Prevalent in Rest of India.</i>
<i>Nobody acquires the right; share in the property by birth as long as the head of family is living.</i>	<i>One acquires the right to the family property by his birth and not by succession irrespective of the fact that his elders are living.</i>
<i>Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father; the children will acquire right/share in the property.</i>	<i>Thus, every child born in the family acquires a right/share in the family Property.</i>
<i>Hence, the father and his brothers would be coparceners of the HUF.</i>	

### 3) Company (Definition)

1. Company means, any **Indian company** as defined in sec 2(26);
2. Anybody corporate incorporated by or under the laws of country outside India, i.e., any **Foreign company**; or
3. Any institution, association or body, whether incorporated or not and whether Indian or non-Indian; **which is declared by a general or special order of the CBDT to be a company for such assessment years as may be specified in the CBDT's order**

### Classes of Companies and their Definition

<i>Domestic Company</i>	<i>Indian company or any company which has made arrangements for payments of dividends</i>
<i>Indian Company</i>	<i>A company registered under Indian Companies Act and having the registered office in India</i>
<i>Foreign company</i>	<i>It means a company which is not a domestic company</i>

### 4) Firm

- i) A firm means a firm as defined in the **Indian Partnership Act 1932** and also **includes LLP.**

### 5) Association of persons (AOP)



- i) When persons combine together for promotion of **joint enterprise** they are assessable as an AOP when they do **not in law constitute a partnership**.
- ii) Co-heirs, co-legatees or co-donees joining together for a common purpose or action would be chargeable as an AOP.

## 6) Body of Individuals (BOI)

- i) It denotes the status of persons **like executors or trustees** who merely receive the income jointly and who may be assessable in like manner and to the same extent as the beneficiaries individually. Thus, co-executors or co-trustees are assessable as a BOI as their title and interest are indivisible.
- ii) Income-tax shall not be payable by an assessee in respect of the receipt of share of income by him from BOI and on which the tax has already been paid by such BOI.

## 7) Local Authority

The term means a **municipal committee, district board, body of port commissioners** or other authority legally entitled to or entrusted by the Government with the control or management of a municipal or local fund.

## 8) Artificial Persons

This category could cover **every Artificial Juridical Person not falling under other heads**. An idol, Or **deity** would be assessable in the status of an artificial juridical person.

### Concept 5: SOME IMPORTANT DEFINITIONS IN THE INCOME-TAX ACT, 1961.

Previous Year	It means the FY immediately preceding the assessment year. The <b>income earned in the previous year is taxed in the assessment year</b> .
[Sec 3]	Business or profession newly set up during the financial year - In such as case, the previous year shall be the period beginning on the date of setting up of the business or profession and ending with 31st March of the said financial year.
	If a source of income comes into existence in the said financial year, then the previous year will commence from the date on which the source of income newly comes into existence and will end with 31st March of the financial year.
Assessment Year	<b>Assessment year means a period of 12 months commencing on 1st April every year</b> .
[Section 2(9)]	The year in which tax is paid is called the assessment year while the year in respect of income of which the tax is levied is called the Previous year.
Assessee	Assessee means a person by whom any tax or any other sum of money is payable under this Act. It Includes:

2(7)]	1) Every person in respect of whom any proceeding has been taken for
Nov. 13	The assessment of his income or assessment of fringe benefits.
	2) A person who is assessable in respect of income of some other person.
May 16	3) Every person who is deemed to be an assessee or an assessee in default under the provisions of this Act.
Person	The definition of person is inclusive i.e. a person includes
[Section	1) An Individual
2(31)]	2) A Hindu Undivided Family (HUF)
	3) A company
	4) A firm
	5) An AOP or a BOI, whether incorporated or not
	6) A local authority, and
	7) Every artificial juridical person e.g. an idol or deity.
Gross	u/s 14, income of a person is computed under the following five
Total	Heads:
Income	1) Income from Salary(Sec 15 to Sec 17)
	2) Income from House Property(Sec 22 to Sec 27)
	3) Income from Business of Profession(Sec 28 to Sec 44)
	4) Capital Gains(Sec 45 to Sec 55)
	5) Income from Other Sources.(Sec 56 to Sec 59)
India	The term India means
	i)The territory of India as per article 1 of the constitution,
	ii)Its territorial waters, seabed and subsoil underlying such waters,
	iii)Continental shelf
	iv)Exclusive economic Zone
	v) Any other specified maritime zone and the air space above its
	territory and territorial waters.
	vi)Specified Maritime zone means the maritime zone as referred to in
	The Territorial Waters, Continental Shelf, Exclusive Economic Zone and
	other Maritime Zones Act.
	<p>The diagram illustrates the maritime zones around India. It shows the High Sea, Indian Exclusive Economic Zone (200 NM), Contiguous Zone (24 NM), and Territorial Zone (12 NM). The Continental Shelf is also indicated.</p>

<b>Net</b>	Total income is income after reducing deduction under chapter VI-A
<b>Taxable</b>	from the gross total income. This income is also called taxable income
<b>Income</b>	on which tax has to be imposed.
<b>Exemption</b>	Every income of the assessee is charged to tax unless specifically
(Sec 10 of	Exempted under the Act, Sec. 10 provides list of incomes which are
The IT	not to be include in the total income of the assessee for tax purpose.
Act)	In other words, these incomes are out of the purview of income tax
	and for tax purpose, total income is computed without taking these
	incomes into consideration.
<b>Deduction</b>	From the GTI of the assessee, deductions are allowed on fulfillment
	of conditions as prescribed in the various sections of chapter VIA.
	Chapter VI A of the Act (comprises of sections 80C to 80U) provides
	for various deductions from gross total income.
<b>Relief</b>	Income tax liability of assessee is computed on the total income After
	allowing various exemption & deductions under several sections of the
	Act. Relief are reduced from the amount of income tax liability so
	computed on fulfillment of conditions as prescribed in Sec. 86,89, etc.

## Concept 6: Cases where Income of a previous year will be assessed in the previous year

### 1. Shipping business of a non-resident [Section 172]

- a) Where a ship belonging to or chartered by a non-resident carries passengers, livestock, mail or goods shipped at a port in India.
- b) The ship is allowed to leave the port only when the tax has been paid or satisfactory arrangement for payment thereof has been made.
- c) 7.5% of the freight paid or payable to the owner or the charterer or to any other person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income.
- d) This income is charged to tax in the same year in which it is earned.

### 2) Persons leaving India [Section 174]

- a) Where it appears to the assessing officer that any individual may leave India during the current assessment year or shortly thereafter and has no intention of returning:
- b) The total income of such individual for the period from the expiry of the respective previous year to the probable date of his departure from India is chargeable to tax in that Assessment Year.

Eg: Mr X is leaving India for USA on 10.6.2023 and it appears to the Assessing Officer that he has no intention to return. Before leaving India, Mr X may be asked to pay

Exceptional Case

Nov 12

income tax on the income earned during the PY 2023-24 as well as on the total income earned during the period 01-04-2023 to 10-06-2023.

### 3) AOP/BOI/ Artificial Judicial person formed for a particular event or purpose [Section 174A]

- a) In case that an AOP/BOI etc. is formed or established for a particular event or purpose.
- b) The assessing officer apprehends that the AOP/BOI is likely to be dissolved in the same year or in the next year.
- c) The assessing officer can make assessment of income up to the date of dissolution as income of the relevant assessment year.

### 4) Persons likely to transfer property to avoid tax [Section 175]

- a) If it appears to the assessing officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act.
- b) The total income of such income for the period from the expiry of the previous year to the date when the assessing officer commences proceedings under this section is chargeable to tax in that assessment year.

### 5) Discontinued business [Section 176]

- a) Where any business or profession is discontinued in any assessment year. The income of the period from the expiry of the previous year up to the date of such discontinuance may, at the discretion of the assessing officer, be charged to tax in that assessment year. In this case it is at the discretion of the AO

## Concept 7: Definition of Income and its concept under Income tax Act

### 7.1) Definition of Income

#### Income

This definition of income is inclusive and not exclusive. Income includes:

1. Profits and Gains

2. Dividends

3. Voluntary contributions received by a trust/institution wholly or partly created for charitable Or religious purposes or by an association or institution referred to in section 10(21) or section 23C.

4. The value of any perquisite or profit in lieu of salary taxable under section 17.

5. Any special allowance or benefit other than perquisite given to the employee to meet Expenses wholly, necessarily and exclusively for the performance of the duties of an office or Employment of profit.

6. Any allowances granted to the assessee to meet his personal expense at the place where the duties of his office or employment of profit are ordinarily performed by him or at a place where he ordinarily resides or to compensate him for increased cost of living.
7. The value of any benefit or perquisite whether convertible into money or not, obtained from The company either by the director or by a person who has substantial interest in the company or by a relative of the director or such person and any such sum paid by any such company in respect of any obligation which, but for such payment would have been payable by the director or other person aforesaid.
8. The value of any benefit or perquisite whether convertible into money or not, which is obtained by any representative assessee mentioned under section 160(1)(iii) and (iv), or by any beneficiary or any amount paid by the representative assessee for the benefit of the beneficiary which the beneficiary would have ordinarily been required to pay.
9. Deemed profits chargeable to tax under section 41 or section 59.
10. Profits and Gains of business or profession chargeable to tax under section 28.
11. Any Capital Gains chargeable under section 45.
12. The profits and gains of any insurance business carried on by Mutual Insurance Company or by A cooperative society, computed in accordance with section 44 or any surplus taken to be such profits and gains by virtue of the provisions contained in the first schedule to the Act.
13. The profits and gains of any business of banking (including providing credit facilities) carried On by a cooperative society with its members.
14. Any winnings from lotteries, cross-word puzzles, races including horse races, card games or Any other games of any sort or from gambling, or betting of any form or nature whatsoever.
15. Any sum received by an assessee from his employees as contributions to any provident fund Or superannuation fund or Employees State Insurance Fund or any other fund for the welfare Of such employees.
16. Any sum received under a Keyman Insurance policy including the sum allocated by the way Of bonus on such policy will constitute income.
17. Any sum referred to clause (va) of section 28. Thus any sum, whether received or receivable In cash or in kind, under an agreement for not carrying out an activity in relation to any business, or not sharing any know how, patent, copy right, trade-mark, licence, franchise or any other business or commercial right of any nature, or information or technique likely to assist in the Manufacture or processing of goods or provision of

services, shall be chargeable to income tax under the head 'profits and gains of business or profession'.

18. Any sum related to in section 56(2)(x) Gifts received by any person from non-relatives or on or after 1.4.2006, if the aggregate value of such gifts exceed Rs.50,000 during a year.

19. As per Finance Act 2015 the income shall include assistance in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement by the central government or the state government or any other authority. As per Finance act 2016 amended to exclude subsidy or grant or reimbursement which has been taken into account for determination of actual cost of depreciable asset

20. (The fair market value of inventory referred to in Section 28) in case of conversion of inventory into capital asset. (Wef AY 19-20.)

21. Any compensation or other payment referred to in Section 56(2)(xi). (Wef AY 19-20)

## 7.2) Some Concepts:

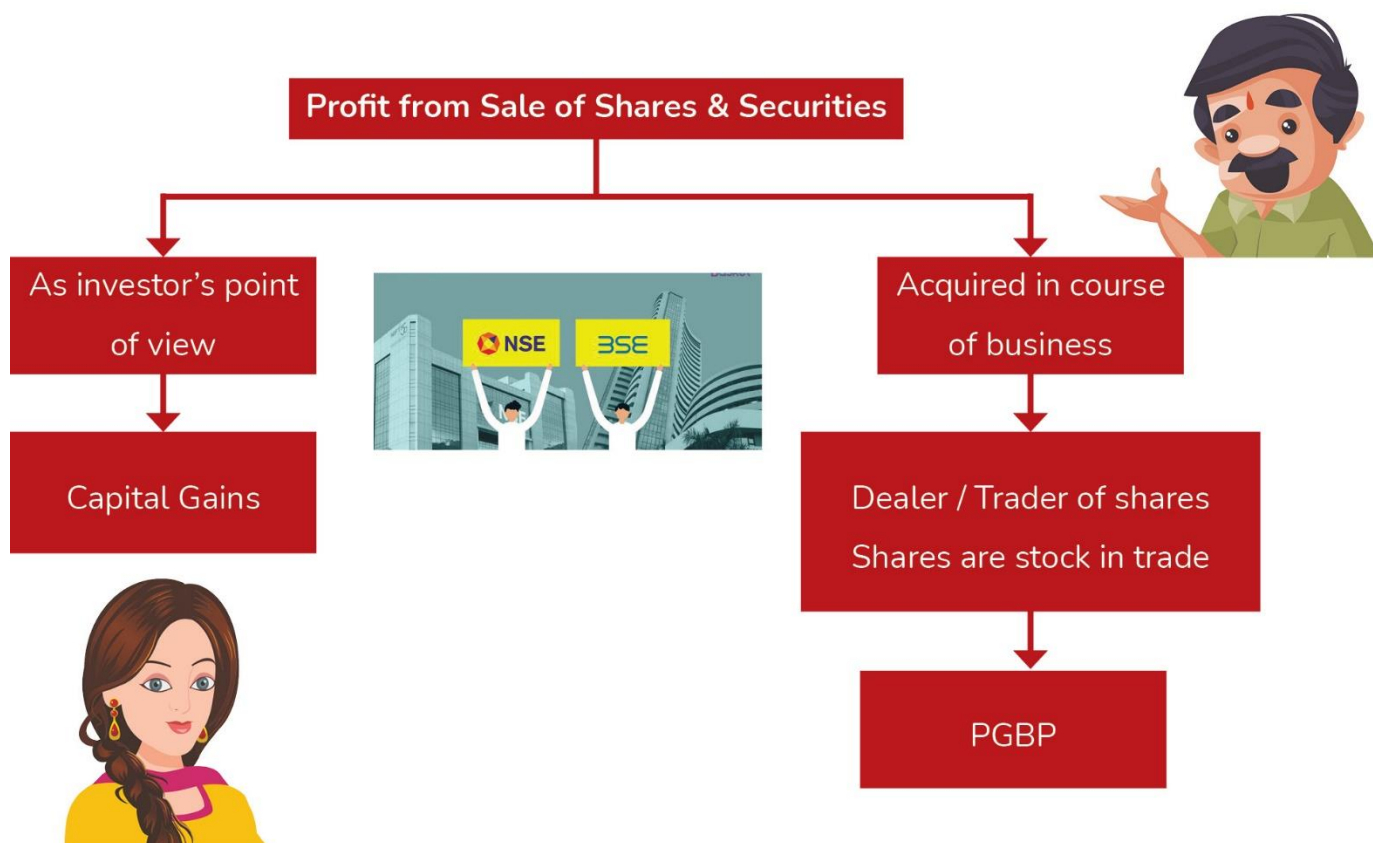
### a) Regular Income/Casual Receipt

Regular Income	Casual Income
1) It is a periodic monetary return	1) It does not arise regularly
2) It accrues regularly from definite Sources	2) It has no definite source
3) It is treated as Income for tax purpose	3) It is also treated as income for tax Purpose
E.g. Salary Income	E.g. Winning from lotteries

### b) Revenue/Capital Receipt

Revenue Receipt	Capital Receipt
1) It is recurring receipt	1) It is a one time receipt
2) Revenue Receipt are generally Taxable unless specifically made exempt	2) Capital receipts are generally exempt unless specifically made taxable.
	Capital receipts are sometimes included in the definition of income in Income Tax.
E.g. Business Income	E.g. Capital gains i.e. gains on sale of a
Salary Income	capital assets like land
3) It is receipt referable to circulating capital. The circulating capital is one which is turned over and yields income or loss in the process	3) It is a receipt referable to fixed Capital Tangible and intangible asset which The owner keeps in his possession for Making profits are in the nature of fixed Capital

4) Income arising from the sale of a Trading asset are of revenue in nature and taxable as business income	4) Profits arising from sale of a capital Asset are capital receipt. It is taxable as Capital gains because it is covered in the Definition of income
5) Transaction entered in the courses Of business will yield business Income E.g. traders of Computer sells computer(computer will be stock in trade)	5)Whereas for a trader in computer, building and land would be a capital asset
6) Even a single transaction can constitute business. Repetition of such Transactions is not necessary.	6) These are usually one time receipts. E.g. Liquidated damages linked with procurement of a capital asset is a capital Receipt. E.g. compensation on termination Of Agency business is capital receipt.



### c) Net Receipt/Gross Receipt

Net Receipt	Gross Receipt
1) Income means Net Receipt and not Gross Receipt	1) Gross receipt cannot be treated as Income.
2) Net receipts are arrived at after	2) Gross receipt are the total receipts

Deducting expenditure incurred.

without deducting expenses

## d) Method of accounting

- 1) Assessee can maintain books on basis of **cash system or mercantile system**
- 2) In cash system expenses are recorded on payment basis and Income on receipt basis.
- 3) In mercantile system receipt and expenses are recorded on due basis
- 4) However only in case of PGBP and IOS income is calculated either on due or receipt basis i.e it is dependent on assessee's method of accounting.

## e) Application and diversion of Income

Application of Income	Diversion of Income
Application of income means to discharge an obligation after such income reaches the assessee.	Where by virtue of an obligation by overriding title, income is diverted before it reaches the assessee, it is known as diversion of income.
The income would be taxable in the hands of the person who applies it.	It is not taxable (i.e., even if the assessee were to collect the income he does so on behalf of the person to whom it is payable).

## Concept 8: RATES OF TAX for Individuals/HUF/AOP/BOI/AJP

### i. Optional Method

1) Individuals, HUFs, AOP/BOI and every Artificial Juridical Persons the rates of tax applicable for the **A.Y 2024-25** are as follows:

Particulars	Slab	Rate
Individuals below 60 years/ AOP/BOI/AJP/HUF/NR's	Upto 2,50,000	Nil
	2,50,001 - 5,00,000	5%
	5,00,001 - 10,00,000	20%
	10,00,001 and above	30%
Resident Individual Senior Citizen(60 years and above)	Upto 3,00,000	Nil
	3,00,001 - 5,00,000	5%
	5,00,001 - 10,00,000	20%
	10,00,001 and above	30%
Resident Individual Super Senior Citizen (80 years and above)	Upto 5,00,000	Nil
	5,00,001 - 10,00,000	20%
	10,00,001 and above	30%

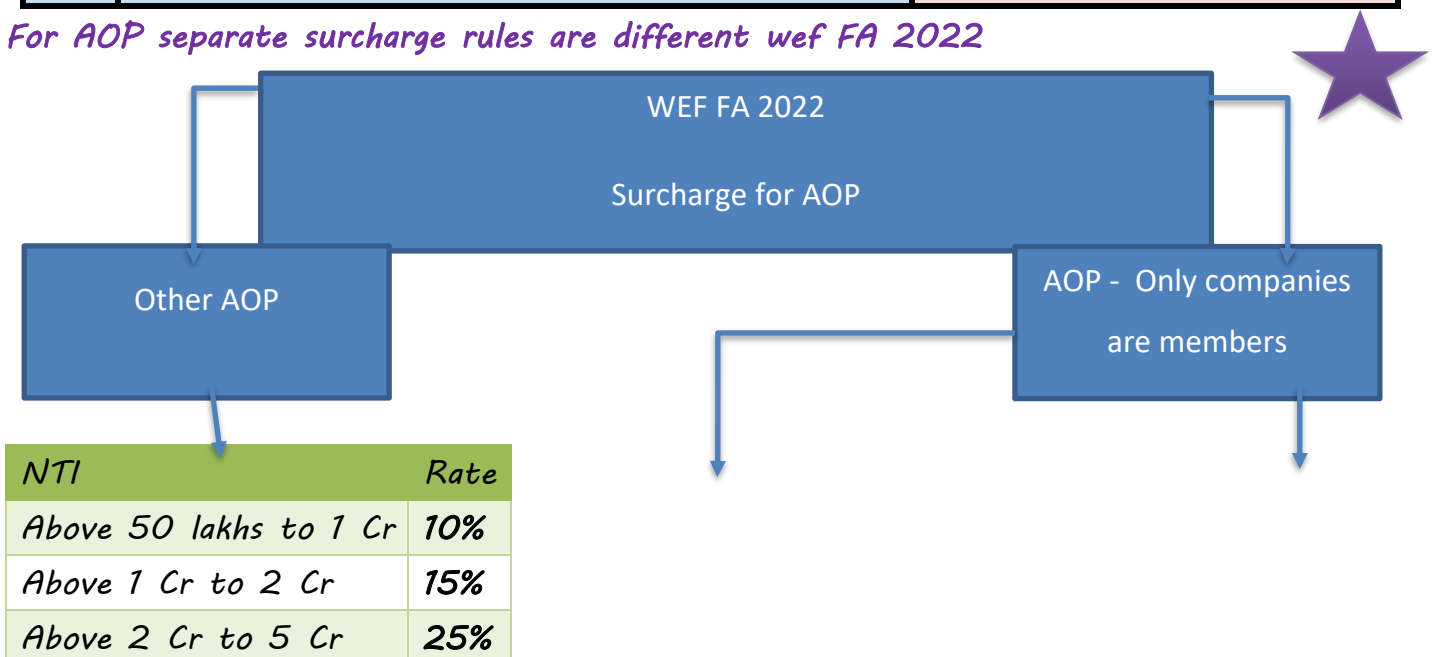


- a. Resident Individual - 60 Years & above - Basic Exemption Limit Rs. 3,00,000
  - b. Resident Individual - 80 Years & above - Basic Exemption Limit Rs. 5,00,000
- The tax rates mentioned above are also applicable to all non-resident individuals irrespective of their age. i.e. for all non-residents the basic exemption limit shall be 2,50,000.

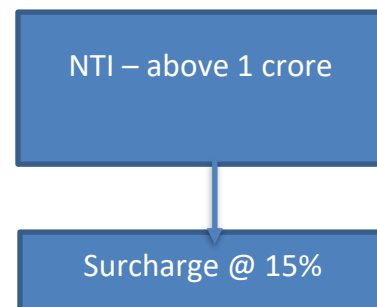
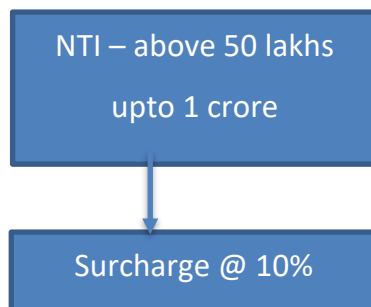
## 4) Surcharge or Rebate and Education Cess

1)	Surcharge @ 10 % for Ind/HUF/AOP/BOI/AJP	NTI Above 50 lakhs - 1 Cr
2)	Surcharge @ 15 % for Ind/HUF/AOP/BOI/AJP	Above 1 Cr to 2 Cr
3)	Surcharge @ 25% for Ind/HUF/AOP/BOI/AJP	Above 2 Cr to 5 Cr
4)	Surcharge @ 37% for Ind/HUF/AOP/BOI/AJP	Above 5 Cr
5)	Rebate u/s 87A = tax or 12500 whichever is lower. (consider tax before surcharge and cess)	1. It is a tax relief. 2. Applicable to Resident Individuals
	education	3. Rebate = Income Tax or Rs 12,500 whichever is less. 4. Consider income before surcharge and HEC
6)	Health and education cess @ 4%	It comes into tax calculation part at the end. It is calculated @ 4% on Tax + surcharge/tax less rebate.
	2% - towards primary education	
	1% - towards secondary & higher education	
	1% - health cess	
7)	The enhanced rate of surcharge of 25% and 37% is not applicable for STCG u/s 111A and LTCG u/s 112A,112 and on dividend income.	Refer chart on next page.

For AOP separate surcharge rules are different wef FA 2022



Above 5 Cr	37%
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## Rounding off

Sec. 288A	Round off of Total Income	r/off to nearest rupee multiple of Rs. 10
Sec. 288B	Round off of Total Tax	r/off to nearest rupee multiple of Rs. 10

## ii. Concessional tax regime for Ind/HUF/AOP/BOI/AJP

1. Individuals and HUF's have an option to pay tax in respect of their total income (other than income chargeable to tax at special rates under chapter XII) at following concessional rates, if they do not avail certain exemptions/deductions.

	Income Tax Rates
Upto 3,00,000	Nil
From 3,00,001 to 6,00,000	5%
From 6,00,001 to 9,00,000	10%
From 9,00,001 to 12,00,000	15%
From 12,00,001 to 15,00,000	20%
Above 15,00,001	30%

Individuals and HUF's exercising option u/s 115BAC are not liable to alternate minimum tax u/s 115JC. We will study this Section in detail in Chapter of "Combined Questions" "Chapter 13"

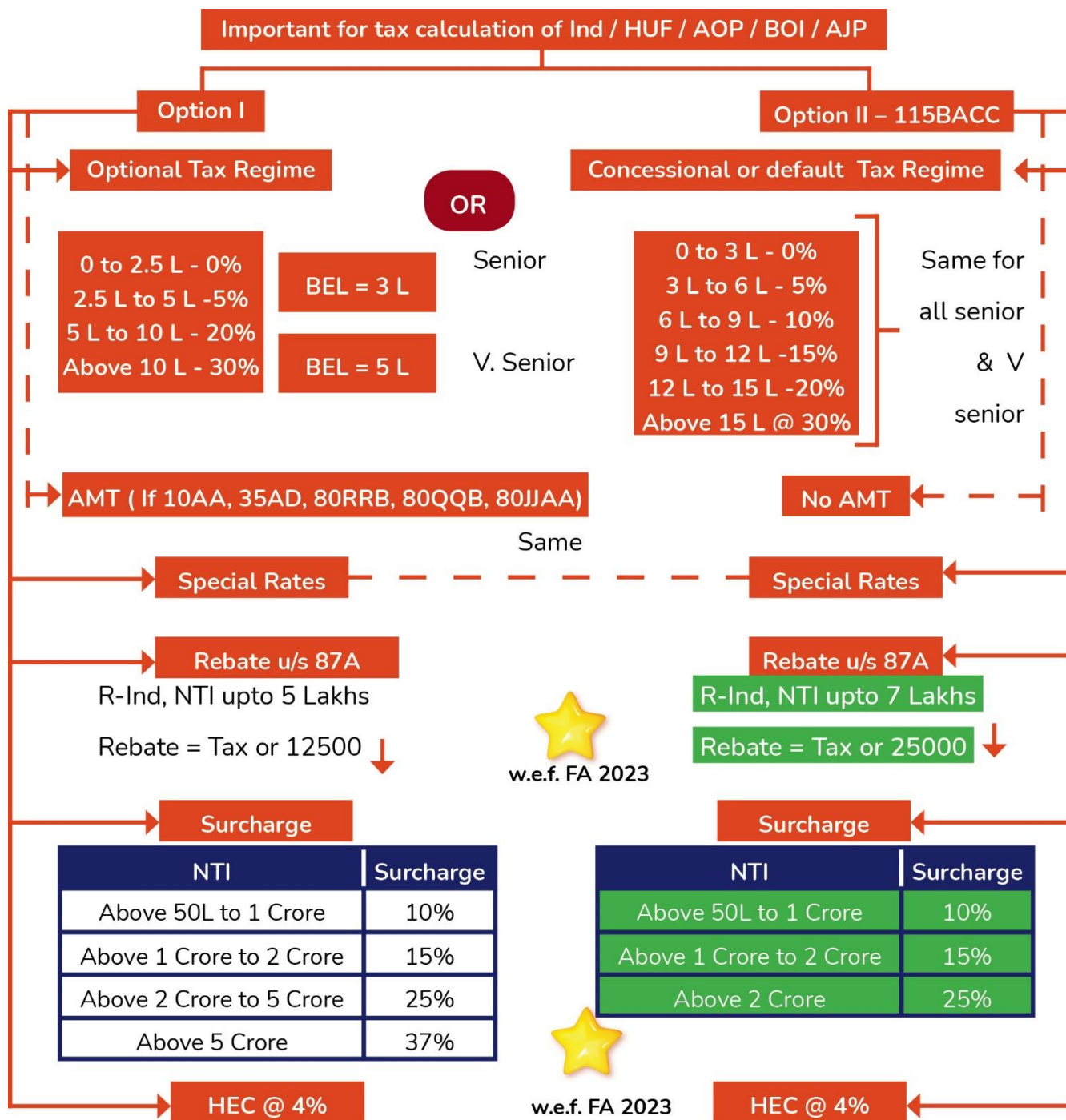
## 2. Surcharge

NTI	Surcharge
Above 50L upto 1 Crore	10%
Above 1 Crore upto 2 Crore	15%
Above 2 Crore	25%

## 3. HEC @ 4%

4. Rebate Applicable for resident Individual whose NTI is upto 7,00,000 = 25,000 or tax

*iii*· Let's Summarise



## Some special points:

A resident individual whose 60<sup>th</sup> birthday falls on 1<sup>st</sup> April, 2024 would be treated as having attained the age of 60 years in the P.Y. 2023-24 and would be eligible for higher basic exemption limit of Rs. 300000 in computing his tax liability for A.Y. 2024-25. Likewise, resident individual whose 80<sup>th</sup> birthday falls on 1st April 2023 would be treated as having attained the age of 80 years in the P.Y. 2023-24, and would be eligible for higher basic exemption limit of Rs. 500000 in computing his tax liability.

## Concept 9 : Concept of Marginal Relief

The purpose of marginal relief is to ensure that the increase in amount of tax payable (including surcharge) due to increase in total income of an assessee beyond the prescribed limit should not exceed the amount of increase in total income

Marginal relief is available in case of Individual/HUF/AOP/BOI/AJP

	Particulars	Marginal Relief
i)	Total income >	Step 1: Compute income tax payable on total Income & add
	50 lakhs ≤ 1	surcharge @10% on such income Tax(A)
	Crone	Step 2: Compute income tax payable on 50 lakhs
		Step 3: total income (-)50 lakhs
		Step 4: Add the amount computed in step 2 and step 3 (B)
		Step 5 : income tax payable on total income (along with surcharge) would be the lower of the amount arrived at in step 1(A) or
		Step 4 (B). Consequently if A>B the marginal relief would be A-B.
ii)	Total income >	Step 1: Compute income tax payable on total Income and add
	1 crore ≤ 2	surcharge @15% on such income Tax(C)
	crore	Step 2: Compute income tax payable on 1 crore + surcharge on such Income tax @ 10%.
		Step 3: total income (-)1 crore
		Step 4: Add the amount computed in step 2 and step 3 (D)
		Step 5 : income tax payable on total income (along with surcharge) would be the lower of the amount arrived at in step 1(C) or
		Step 4 (D). Consequently if c>D the marginal relief would be C-D.
iii)	Total income >	Step 1: Compute income tax payable on total Income and add
	2 crore ≤ 5	surcharge @25% on such income Tax(E)
	crore	Step 2: Compute income tax payable on 2 crore + surcharge on such Income tax @ 15%.
		Step 3: total income (-)2 crore
		Step 4: Add the amount computed in step 2 and step 3 (F)
		Step 5 : income tax payable on total income (along with surcharge) would be the lower of the amount arrived at in step

		$1(E)$ or
		Step 4 (F). Consequently if $E > F$ the marginal relief would be
		$E - F$ .
iv)	Total income	Step 1: Compute income tax payable on total Income and add
	> 5	surcharge @37% on such income Tax(G)
	Crore	Step 2: Compute income tax payable on 5 crore + surcharge on
		such Income tax @ 25%.
		Step 3: total income (-)5 crore
		Step 4: Add the amount computed in step 2 and step 3 (H)
		Step 5 : income tax payable on total income (along with
		surcharge) would be the lower of the amount arrived at in step
		$1(G)$ or
		Step 4 (H). Consequently if $G > H$ the marginal relief would be
		$G - H$ .

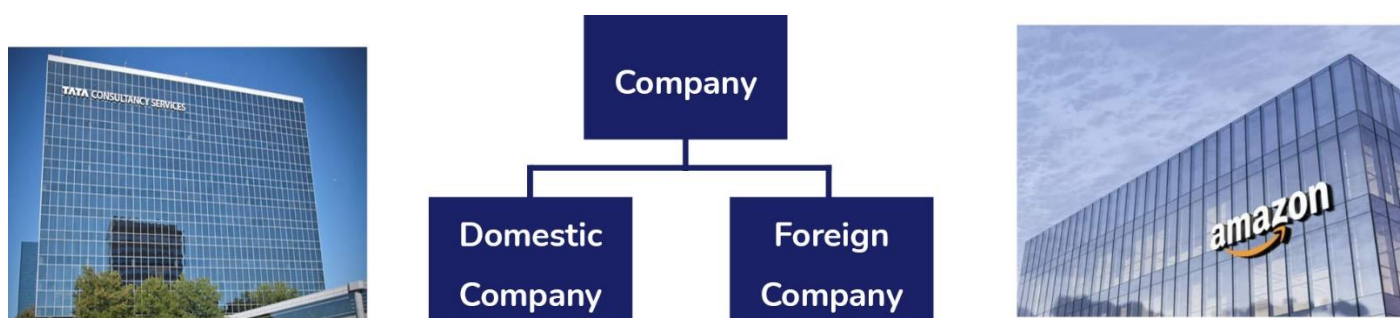
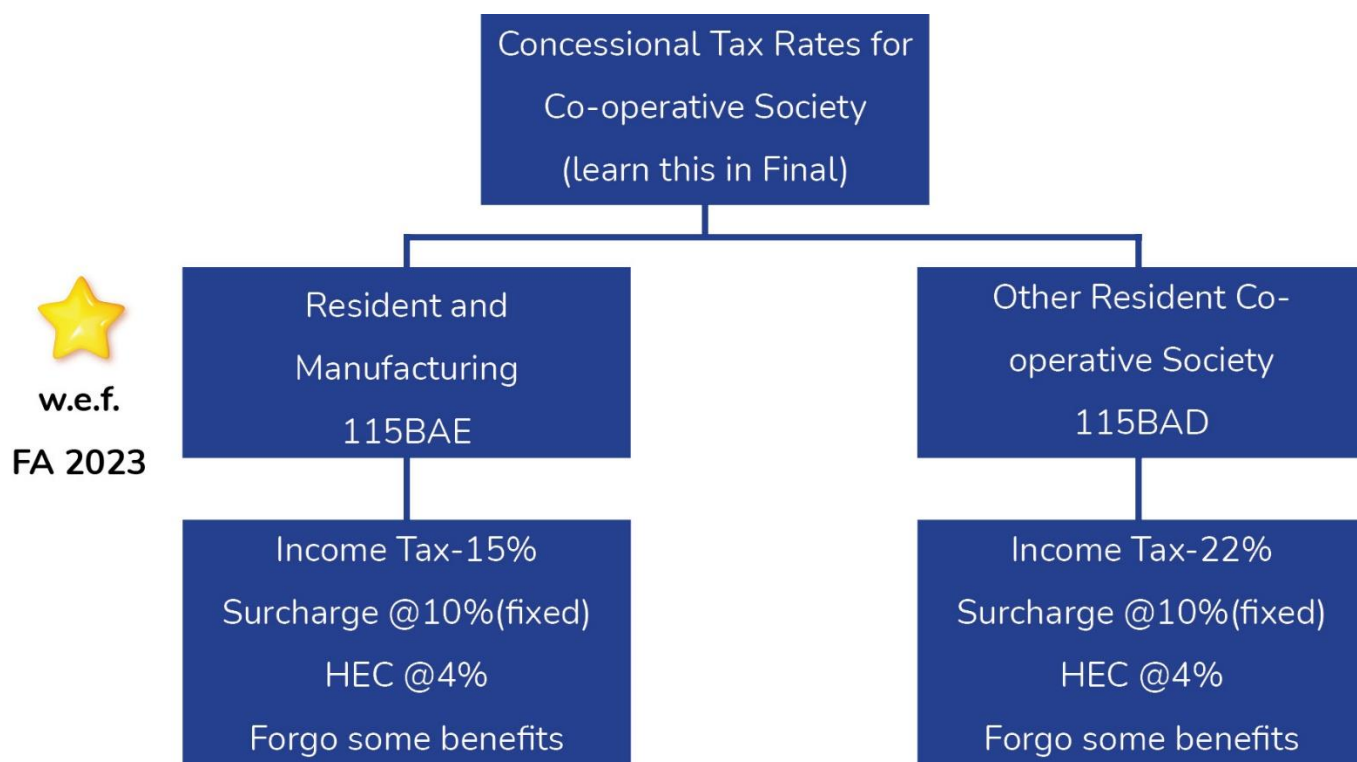
## 1. Firm/ LLP/ Local Authority

Income Tax	30%(no BEL)	
Surcharge	Total Income > 1 crore	12%
HEC	4%	
Concessional Tax Regime	NA	
Marginal relief	Applicable	

## 2. Co-operative Society

Income Tax	Total Income (in Rs.)	Rate of Tax
	Upto 10,000	10%
	Rs 10,001 to 20,000	20%
	Above 20,000	30%
Surcharge	Total income > ₹ 1 crore but is ≤ ₹ 10 crore	7%
	Total income is > ₹ 10 crore	12%
HEC	4%	
Concessional Tax Regime	Section 115BAD or section 115BAE (Final)	
Marginal relief	Applicable	

## Concessional Tax Rates for Co-operative Society



### A. Domestic Company

Income Tax	Tax Rate
a. Total turnover or gross receipts in the P.Y. 2021-22 ≤ ₹ 400 crore -	25%
b. Other domestic companies	30%
<b>Surcharge</b>	
Total income > ₹ 1 crore but is ≤ ₹ 10 crore	7%
Total income is > ₹ 10 crore	12%
<b>HEC</b>	4%
<b>Concessional Tax Regime</b>	Final (Section 115BAA/115BAB)
<b>Marginal Relief</b>	Applicable

## B. Foreign Company

<b>Income Tax</b>	<b>40%</b>
<b>Surcharge</b>	
a. Total income > ₹ 1 crore but is ≤ ₹ 10 crore	2%
Total income is > ₹ 10 crore	5%
HEC	4%
Concessional Tax Regime	NA.
Marginal Relief	Applicable

### Concessional Tax Regime for Domestic Companies


Following two options are available to the domestic company (they can exercise the option anytime before filing return for AY 2020-21 or in any subsequent years )

Sections	115BAAB	1115BAB5BAB
<b>Type of Company</b>	Domestic Companies	New Domestic Companies engaged in manufacturing research, distribution in relation to manufactured article
<b>Option to Tax @</b>	22%	15%
<b>Surcharge</b>	10%	10%
<b>Cess</b>	4%	4%
<b>Conditions</b>		1. The company has been set-up & registered on/after the 1 <sup>st</sup> day of October, 2019, and has commenced manufacturing on or before the 31 <sup>st</sup> March, 2024 (wef FA 2022)
<b>Should forgo these benefit (applicable for both 115BAA &amp; 115 BAB)</b>	1) 10AA-relating to SEZ 2) Additional depreciation 3) 32AD-Deduction for investment in new plant and machinery in 4 States 4) 33AB-Tea/Coffee/Rubber development allowance. 5) 33ABA-Site restoration fund. 6) 35- certain expenses of scientific research 7) 35AD-Deduction in respect of expenditure on 14 specified Business 8) 35CCC-Expenditure on agricultural extension project. 9) 35CCD-Expenditure on skill development project. 10) Deduction under Part C of Chapter VIA other than Section 80JJAA of the Act 11) No Set off of Losses allowed from earlier years due to the above mentioned benefits (Point 1 to 10)	



## Concept 11: SPECIAL TAX RATES (i.e. RATES SPECIFIED BY THE INCOME-TAX ACT) FOR ASSESSMENT YEAR 22-23

Section	Income	Rate Of Tax
112	LTCG (other than LTCG taxable as per sec 112A) (shall be dealt with in detail in chapter "Capital Gains")	20%
112A	LTCG on transfer of- equity share in a company, Unit of equity oriented fund(ULIP policy), unit of business trust. Condition for availing the benefit of this concessional rate is that Securities transaction tax should have been paid---	10%(LTCG > 1,00,000)
	In case of capital asset	Time of payment of STT
	Equity shares in a company	Both at the time of transfer & acquisition
	Unit of equity oriented fund or Unit of business trust.	
Note: LTCG upto 1,00,000 is exempt. LTCG exceeding 1,00,000 is taxable @ 10%. (shall be dealt with in detail in chapter "Capital Gains")		
111A	Long term capital gains on transfer of- equity share in a company, Unit of equity oriented fund, (ULIP policy), unit of business trust. Conditions for availing the benefit of this concessional rate are -Transaction of sale of such equity share or unit should be entered on or after 1-10-2004. And such transaction should be chargeable into securities transaction tax(shall be dealt with in detail in chapter "Capital Gains")	15%
115BB	Winning from lotteries, crossword puzzles, races including horse races Card games or other games of any sort, gambling, betting, of any form or nature (shall be dealt with in detail in chapter of IOS)	30%
115BBJ	Net winnings from Online games	30%

		
115BBE	Unexplained money, investment, expenditure, etc deemed as income u/s 68 or sec 69 or sec 69A or Sec 69B or sec 69C/69D (shall be dealt with in detail in chapter PGBP)	60%

## Concept 13: MMR & AR

**“Average Rate of Tax” (AR)** means the rate arrived at by dividing the amount of Income-tax calculated on the total income, by such total income. **“Maximum Marginal rate” (MMR)** means the rate of income-tax (including surcharge on the income tax, if any) applicable in relation to the highest slab of income in the case of an individual, AOP or BOI, as the case may be, as specified in Finance Act of the relevant year.

### Questions for Practice

1. Calculate the tax liability for the following

a. NTI = 50,85,000    b. NTI = 52,00,000    c. NTI = 1,01,00,000

2. Mr. Agarwal aged 40 years and a resident in India, has a total income of ₹ 4,50,00,000, comprising long term capital gain taxable under section 112 of ₹ 55,00,000, STCG taxable under section 111A of ₹ 65,00,000 and other income of ₹ 3,30,00,000. Compute his tax liability for A.Y.2024-25. Assume that Mr. Kashyap has not opted for the provisions of section 115BAC. (Module Question from Basic Concepts)

3. Mr. Sharma aged 62 years and a resident in India, has a total income of 2,30,00,000, comprising long term capital gain taxable under section 112 of 52,00,000, short term capital gain taxable under section 111A of ₹ 64,00,000 and other income of ₹ 1,14,00,000. Compute his tax liability for A.Y.2023-24. Assume that Mr. Sharma has not opted for the provisions of section 115BAC.

## 2 INCOME UNDER THE HEAD SALARIES

### Contents of Chapter



(Section 15 to 17)

C1 -Introduction

C2- Retirement & other Benefits

C3- Allowances

C4 -Perquisites

C5- Deduction

C6 - Keyman Insurance Policy

C7- Relief Under section 89

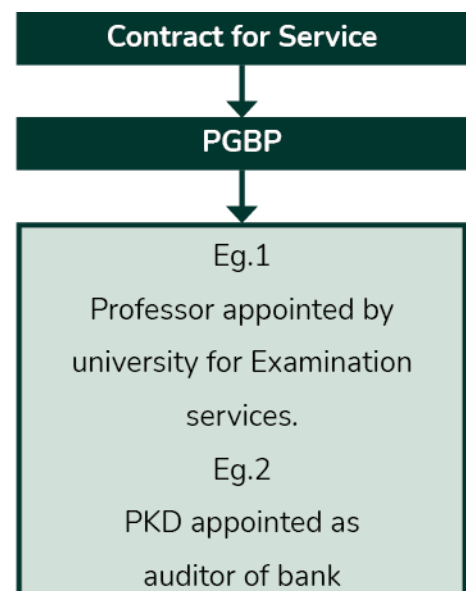
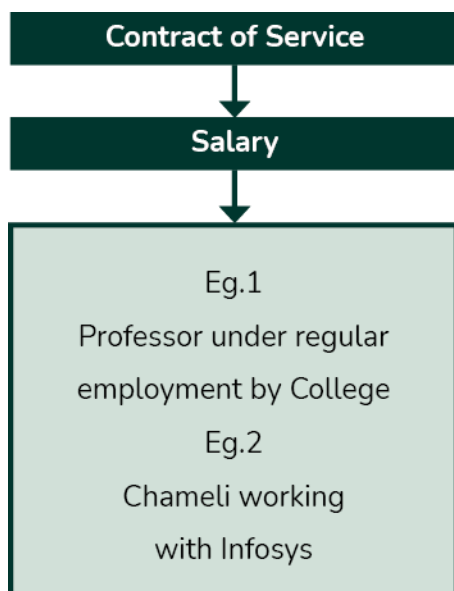
C8 -Tax on perquisite paid by the employer Sec. 10(10CC)

### Concept 1: Introduction

#### 1.1) SALARY (tax incidence in the hands of the employee)

There should be relationship of employer and employee between the payer and the payee i.e. amount received by an individual shall be taxable as salary only if there is a relationship of employer and employee. Salary may be received from former, present or prospective employer.

The remuneration should be in respect of



Any payment received from a person who is not the employer will not be taxed as salary.

*E.g.1* Partners remuneration from the firm is not taxed a salary as there is no relation of employer and employee between the firm and the partner.

## 2. Income under the head Salaries

*E.g.2 Salary received by Member of Parliament is taxed under the head Income from Other Sources.*

1.2) As per section 15 the basis of charge is "Due or receipt whichever is earlier".

*Salary due in the previous year whether actually paid or not will be taxable in the previous year. Similarly, Advance salary received will be taxable in the year of receipt. The method of accounting followed by the employee is irrelevant.*

*So what is the Basis of Charge?*

*Lets answer it again, what is the basis of charge for salary?*

*EG: Mr. X got 12 months' salary during the year. In the month of March he also got 2 months' salary in advance. During the year how much salary will be taxable?*

1.3) Forgoing of salary: *As per sec 15(a), any salary due from employer or a former employer to an assessee in previous year, whether paid or not, will be taxable in his hands. If therefore an employee forgoes his salary, it does not mean that such a salary is not taxable. Such voluntary waiver or forgoing by an employee of salary due to him is merely an application of income and is chargeable to tax.*

*E.g. Mr. X wants to donate his 2 days salary to a Charitable Trust. This will be taxable in his hands.*

1.4) Surrender of salary: *Where an employee opts to surrender his salary (including allowances) To the central government under voluntary surrender of salaries (exemption from taxation) Act, 1961, the salary so surrendered would not be taxable in his hands and will be excluded from his Taxable income.*

1.5) Difference between advance salary and advance against salary

*Advance Salary - 1) Salary received in advance is income*

*2) Income, Taxed on due or receipt*

*Advance against salary - 1) Loan*

1.6) Full time or part time employment

*Both taxable under salary*

## 2. Income under the head Salaries

### 1.7) Arrears of Salary

Normally Salary is taxed on due or receipt basis. However sometimes it is not possible. Sometimes there is a revision of previous year salary then such arrears are taxed in the year of receipt.

### 1.8) Salary paid tax free-

It means that the employer bears the burden of the tax on the salary of the employee. In such a case, the income from salaries in the hands of the employee will consist of his salary income and also the tax on this salary paid by the employer. However as per sec 10(10CC), the income tax paid by the employer on the non-monetary perquisites on behalf of the employee would be exempt in the hands of the employee.

### 1.9) Computation of salary

Particulars	Amt(Rs)
1) Basic Salary - Fully taxable	XXX
2) DA - Fully taxable	XXX
3) Commission - Fully taxable	XXX
4) Bonus - Fully taxable	XXX
Note - Arrears of bonus become taxable if not taxed earlier.	
5) Advance Salary - Fully taxable	XXX
6) Gratuity - (Concept 4.1)	XXX
7) Pension - (Concept 4.2)	XXX
8) Leave Salary - (Concept 4.3)	XXX
9) Entertainment allowance	XXX
10) Allowances	XXX
11) Employer's contri to PF	XXX
12) Perquisites	XXX
13) VRS Compensation	XXX
14) Superannuation Fund	XXX
15) Retrenchment Compensation	XXX
16) Profits in lieu of salary	XXX
17) Sum received under keyman insurance policy	XXX
18) Contri to Agniveer (The contribution made by the Central Government in the previous year, to the Agniveer Corpus Fund account of an individual enrolled in the Agnipath Scheme referred to in section 80CCH.) (w.e.f. FA 2023)	XXX

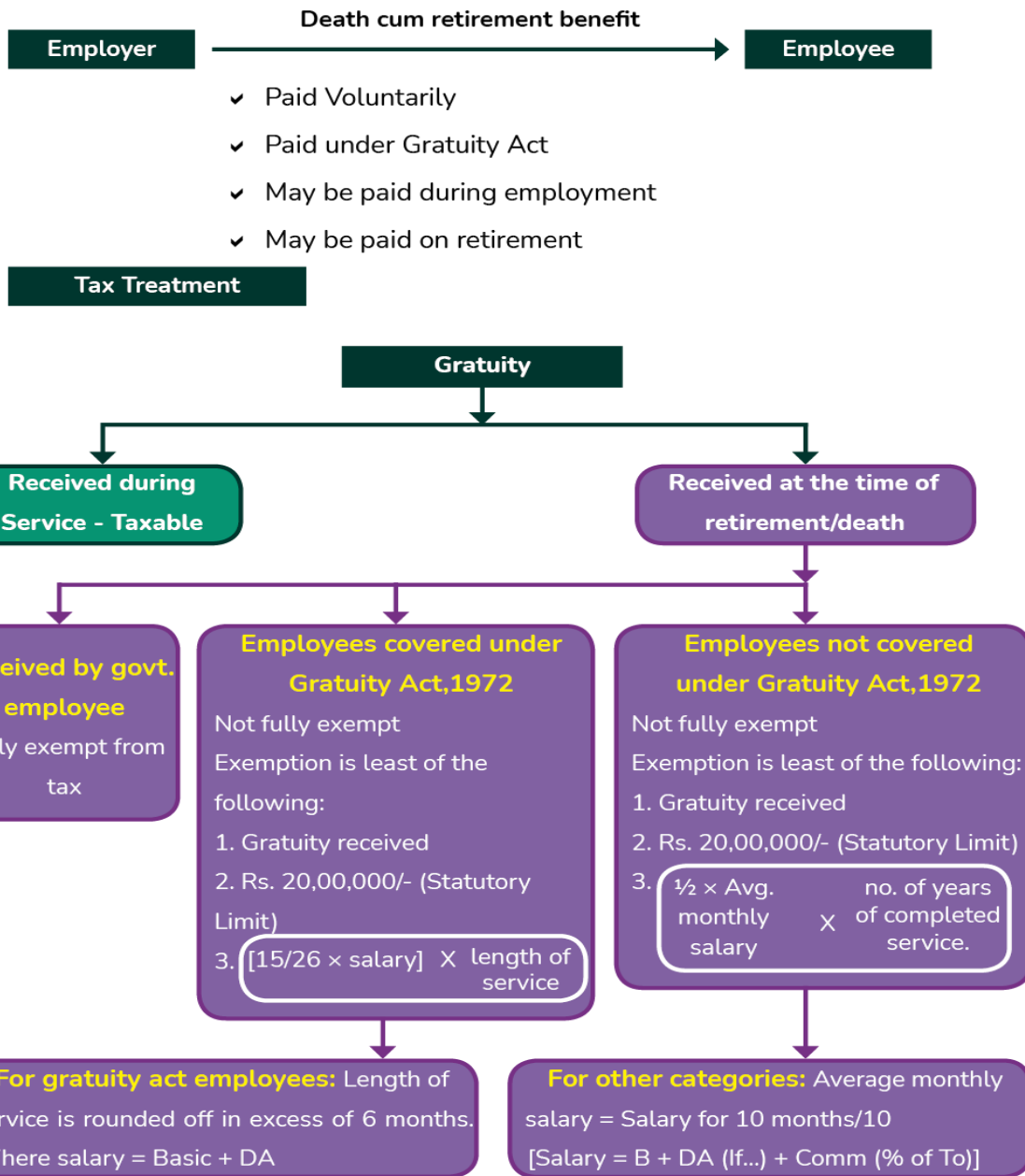
## 2. Income under the head Salaries

19) Wages	
20) Arrears of salary	
21) Salary from previous employer	
22) Incentives	
<b>GROSS SALARY</b>	<b>XXX</b>
Less - Deduction u/s 16 -	
16 (ia) Standard Deduction	(XX)
16 (ii) Entertainment Allowance	(XX)
16 (iii) Profession Tax (Allowed only to Govt. Employee)	(XX)
<b>NET SALARY</b>	<b>XXX</b>

### Concept 2: Retirement & other Benefits

#### 2.1) Gratuity (Exemption u/s 10(10))

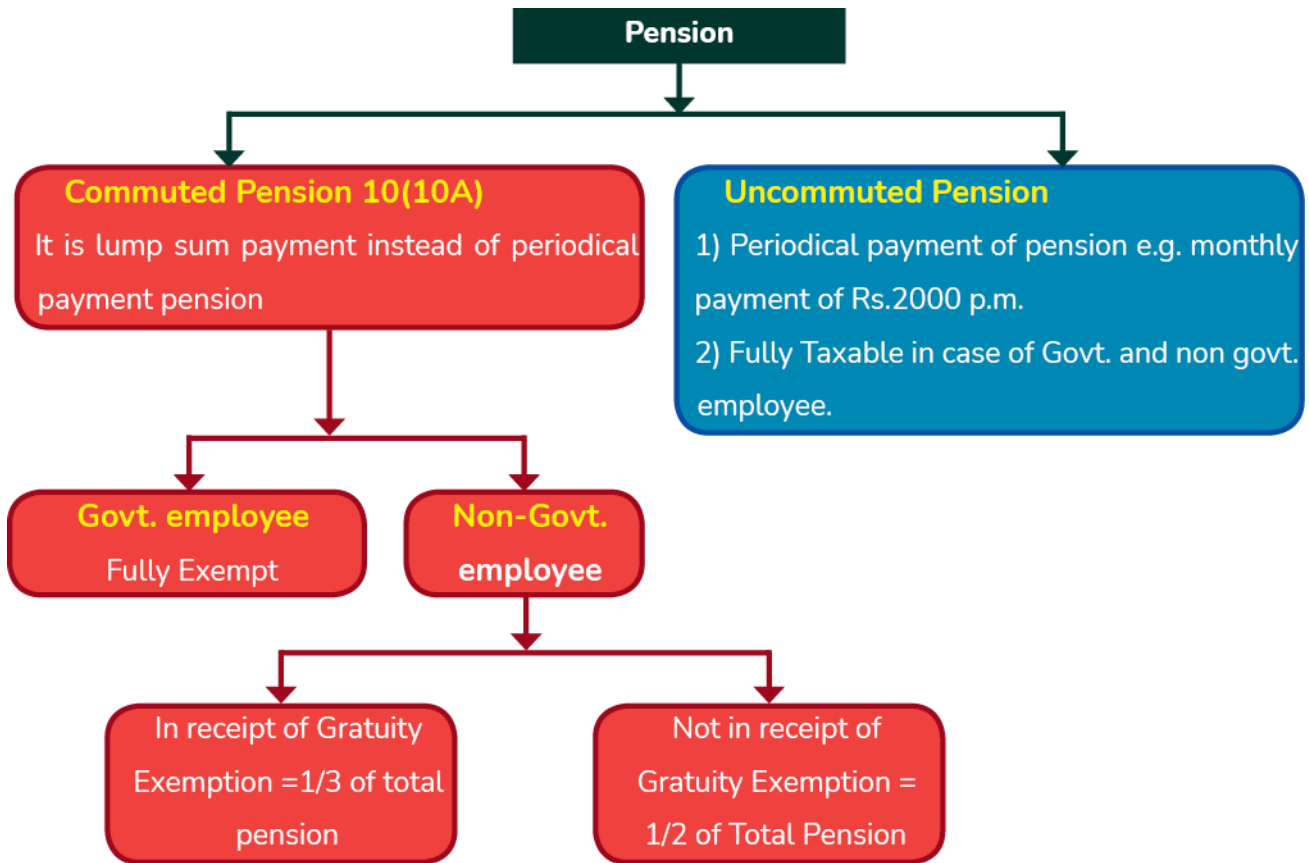
## 2. Income under the head Salaries



### 2.2) Pension/Annuity

Pension is a periodical payment received from the employer *on or after retirement*. Pension can be *commuted* or *uncommuted*. Pension/Annuity received from person other than employer is taxable under 105

## 2. Income under the head Salaries



### Note :

1. Pension from UNO received by employee/Family member - exempt
2. Family pension received by the family members of armed forces - exempt

### **3. Family Pension:**

It is the pension *received by the family members* of the deceased employee. Family pension is not taxable under the head salaries but is taxable under the head-“IOS.”

(It will be learnt in detail in the chapter of IOS)

### 2.3) Leave Encashment Sec 10 (10AA)

a) Employees are entitled to certain leave during the year as per the service rules. these leaves may or may not be availed by the employee.

b) If leave is not availed then:

1. Leave may lapse

2. Leave may be allowed to be encashed every year.

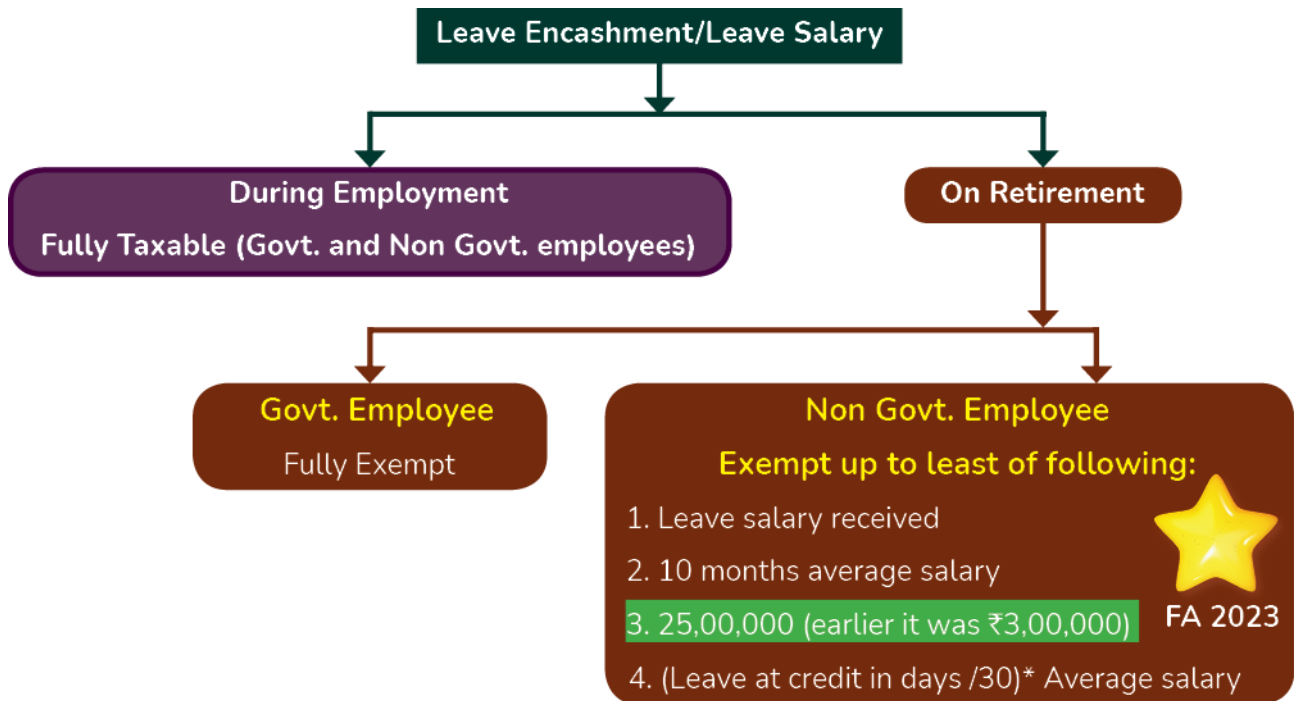
3. Leave may be accumulated and encashed at the time of retirement

Encashment of accumulated leave at the time of retirement or during the service is known as Leave encashment

### **c) Tax Treatment**



## 2. Income under the head Salaries



### 1. Avg Salary :

[Avg of last 10 months upto date of Retirement]

Average salary p.m. = Salary for 10 months	
Avg. Basic salary of last 10 months	xxx
Avg. DA (in terms) of last 10 months	xxx
Avg. Turnover Commission of last 10 months	xxx
<b>Salary of last 10 months =</b>	<b>xxx</b>

### 2.

$$\text{Salary} = B + DA (\text{If...}) + \text{Comm} (\% \text{ of } TO)$$

### 3.

$$\text{Leave at credit} = \text{Leave allowed} - \text{Leave Taken}$$

4. For leave allowed, Income Tax has a ceiling of 30 days per year.

5. Consider completed no of years of service for calculation of leave at credit.

### 2.4) Retrenchment Compensation Sec. 10(10B)

a) Retrenchment compensation means compensation paid under Industrial disputes Act 1947

b) Exemption is least of the following:

1. Retrenchment compensation received

## 2. Income under the head Salaries

2. Amount specified by Central Government Rs.5,00,000/-

3. Amount calculated in accordance with Sec.25F (b) of the Industrial Disputes Act:1947.  $\frac{15}{26} \times \text{Avg. salary of last 3 months} \times \text{completed yrs of service}$  and Part thereof in excess of 6 months.

$$\frac{15}{26} \times \text{Avg Salary of last 3 Months} \times \text{No. of completed year of service}$$

[Salary = B + DA (If...) + Comm (% of TO)] [R/off in excess of 6 months]

### 2.5) Sec.10 (10C): Compensation received at the time of Voluntary retirement Scheme (VRS) Rule 2BA

1. Compensation is received by an employee under Voluntary Retirement or Voluntary Separation Scheme.

2. VRS is as per prescribed guidelines

**3. Exemption - Least of the following**

a. Compensation received

b. Maximum sum Rs.5,00,000

c.  $3M \times \text{Salary p.m.} \times \text{Completed no of yrs.}$

d.  $\text{Salary p.m.} \times \text{No. of balance months of service}$

4. Either claim this exemption or relief u/s 89.

**5. Prescribed Guideline Rule 2 BA**

a. It applies to an employee who has **completed 10 years of services** or **completed 40 years of age**

b. It applies to all employees of an authority or co-operative society except directors of Company and of a co-operative society.

c. The scheme has been drawn to **result overall reduction in the existing strength of employees.**

d. The vacancy caused by the **VRS is not to be filled up.**

e. The **retiring employee** of a company shall not be employed in another company or concern belonging to **the same management.**

### **Illustration**

Mr. Dutta received voluntary retirement compensation of Rs. 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary Rs. 20,000 p.m.; dearness allowance

## 2. Income under the head Salaries

(which forms part of pay) Rs. 5,000 p.m. Compute his taxable voluntary retirement compensation, assuming that he does not claim any relief under section 89.

**Solution:**

Particulars	Rs.
Voluntary retirement compensation received	
Less: Exemption under section 10(10C) [See note below]	
Taxable voluntary retirement compensation	

**Note:** exemption is to the extent of least of the following:

Compensation actually received =

Statutory limit =

Last drawn salary  $\times$  3  $\times$  completed years of service =

Last drawn salary  $\times$  remaining month of service =

### 2.6) Employer's contribution to the account of an employee under pension scheme u/s 80CCD

**Employer's contribution to the account of an employee under pension scheme u/s 80CCD**

Employers contribution to NPS is treated as perquisite in the hands of employee. Also employee gets deduction u/s 80CCD upto 14% of salary contributed by Central Government and 10% of salary contributed by any other employer

Now this benefit will be covered under an upper limit of 7,50,000 as per Finance Act 2020

We will learn this in detail in chapter of deductions ie Section 80CCD.

### 2.7) PROFIT IN LIEU OF SALARY Sec. 17(3)

It includes the following:

(i) Compensation on account of termination of his employment

## 2. Income under the head Salaries

The amount of any compensation due to or received by an assessee from his employer or former employer at or in connection with the termination of his employment.

### (ii) Compensation on account of modification of the terms and conditions of employment

Usually, such compensation is treated as a capital receipt. However, by virtue of this provision, the same is treated as a revenue receipt and is chargeable as salary.

**Note :-** The payment must be arising due to master-servant relationship between the payer and the payee. If it is not on that account, but due to considerations totally unconnected with employment, such payment is not profit in lieu of salary.

**Example:** A was an employee in company in a Pakistan. At the time of partition, he migrated to India. He suffered loss of personal movable property in Pakistan due to partition. He applied to his employer for compensating him for such loss. Certain payments were given to him as compensation. It was held that such payments should not be taxed as 'Profit in lieu salary'.

### (iii) Payment from provident fund or other fund

Any payment due to or received by an assessee from his employer or former employer from a provident or other fund other than

- Gratuity [Section 10(10)]
- Pension [Section 10(10A)]
- Compensation received by a workman under Industrial Disputes Act, 1947

[Section 10(10B)]

- from provident fund or public provident fund [Section 10(11)]
- from recognized provident fund [Section 10(12)]
- from approved superannuation fund [Section 10(13)]
- any House Rent Allowance [Section 10(13A)],

to the extent to which it does not consist of employee's contributions or interest on such contributions.

### (iv) Keyman Insurance policy

Any sum received by an assessee under a Key man Insurance policy including the sum allocated by way of bonus on such policy.

### (v) Lump sum Payment or otherwise

Any amount, whether in lump sum or otherwise, due to the assessee or received by him, from any person -

- (a) before joining employment with that person, or
- (b) after cessation of his employment with that person.

## 2.8) Place of accrual of salary income Sec 9(1)

a) Place of accrual of salary = place where the services are rendered.

## 2. Income under the head Salaries

b) If services are rendered in India then the salary is deemed to accrue in India even if salary is paid outside India. Also Pension and leave salary paid abroad is deemed to accrue in India if it is paid in respect of services rendered in India.

c) **Exception**—paid by Indian Government to Indian National shall always accrue in India even if service is rendered outside India.

d) **Exemption** - Allowances and perquisites paid by Indian Government to Indian National working abroad are exempt from tax.

### Concept 3: ALLOWANCES

Allowance is a fixed quantity of money given in addition to salary to meet a particular requirement connected with the services. Allowances are fixed and pre-determined.

Allowances are received in cash. Only for some allowances there is exemption whereas most of the allowances are fully taxable.

#### 3.1 House Rent Allowance:

a. This is an allowance given to allow the employee to pay rent for an accommodation.

This exemption is available only if the employee is paying rent for the accommodation. If he does not pay rent then the entire HRA received is taxable.



#### House Rent Allowance Calculations

b. HRA is exempt to least of following

1. HRA Received

2. 50% of Salary (metropolitan cities) or 40% of Salary (other cities)

3. Rent paid - 10% of Salary.

Following are 4 metropolitan cities:

c. Salary for HRA = Basic

+ Dearness Allowance

(If forming part of retirement benefit)

+ Commission

(If received an % of to)

d. Exemption under HRA is not available where:

## 2. Income under the head Salaries

1. The employee lives in his own house
2. Employee lives in a house for which he does not pay any rent.
3. If rent paid does not exceed 10% of salary.
4. If assessee opts default tax regime u/s 115 BAC.

*e. HRA should be calculated on a monthly basis if any of the following factors change*

1. Salary of employee
2. House rent allowance
3. Rent paid
4. The place where the house is taken on rent.

### 3.2) Section 16 (ii) Entertainment Allowance

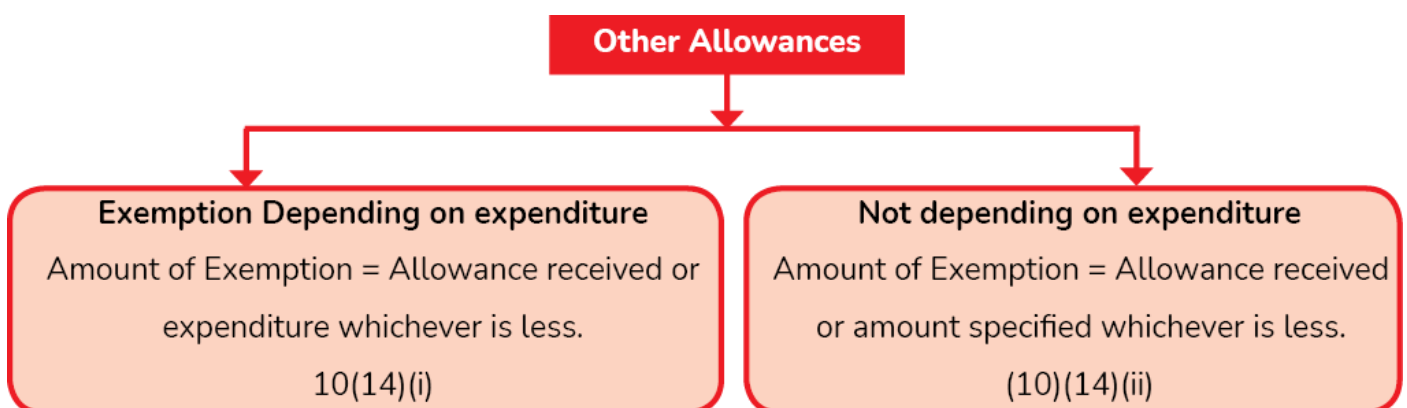
a) Entertainment Allowance is added as an allowance in salary while calculating Gross Salary.

Then a *deduction* is allowed only in *case of Government employees*.

b) Deduction is *least* of the following:

- 1) Entertainment Allowance actually received.
- 2) Rs. 5,000/- p.a. (Statutory Limit)
- 3) 20% of Basic Salary.

### 3.3) Other Allowances



*Allowances where exemption is dependent on expenditure:*

## 2. Income under the head Salaries

No.	Name of allowance	Purpose
1	Travelling allowance	Any allowance granted to meet the cost of travel on tour or on transfer of duty. It includes any sum paid in connection with transfer, packing and transportation.
2.	Conveyance allowance	Any allowance granted to meet the expenditure incurred on conveyance in performance of duties of an office.
3.	Helper allowance	Any allowance, granted to meet the expenditure of a helper engaged for office duties.
4.	Academic allowance	Any allowance, granted for encouraging academic, research and training.
5.	Uniform allowance	Any allowance, granted to meet the expenditure incurred on purchase/maintenance of uniform for office purpose.
6.	Daily Allowance	Any allowance, whether granted on tour/for period of journey in connection with transfer, to meet the ordinary daily charges.

### Allowances dependent on amount specified:

No.	Name of allowance	Amt Specified as Exemption
1.	Children Education allowance	
2.	Hostel allowance	
3.	Counter Insurgency allowance (for armed forces when they are posted in States where the public is against the ruling Government)	Maximum Rs 3,900 per month
4.	Transport allowance granted to an employee who is <b>blind or deaf</b> and dumb or orthopedically <b>handicapped</b> with disability of the lower extremities of the body, to meet his expenditure for commuting between his residence and place of duty.	Maximum Rs 3,200 per month Office $\longleftrightarrow$ Residence
5.	Underground allowance for working in coal mines.	Maximum 800 per month
6.	Tribal Area allowance(specified places)	Maximum 200 per month
7.	Allowance to employees working in a transport system to meet personal expenditure during his duty to another place	70% of such allowance up to a maximum of Rs.10,000/- per Month
8.	Island (duty) allowance granted to the member of Armed forces in Andaman & Nicobar and Lakshadweep Group of Islands.	Maximum 3,250 per month

**Note:** An employee, being an assessee who opts for the provisions of the section

## 2. Income under the head Salaries

115BAC would be entitled for exemptions 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 3200 p.m.

### Conclusion for Allowance

1) Hint: Name of the allowance is

2) Taxability of allowances

3) Some examples of fully taxable allowances are

- a) Entertainment allowance
- b) Dearness allowance
- c) Overtime allowance
- d) Fixed medical allowance
- e) City Compensatory allowance (to meet increased cost of living in cities)
- f) Interim allowance
- g) Servant allowance
- h) Project allowance
- i) Tiffin/lunch/diner allowance
- j) Any other cash allowance
- k) Warden allowance
- l) Non-practicing allowance
- m) Special Allowance, etc

3.4) Some examples of fully exempt allowance are

**1. Allowable to High Court Judges:** Any allowance paid to a High Court under section 22A(2) of the High Court Judges (conditions of service) Act, 1954 is not taxable.

**2. Allowance receive from United Nations Organization (UNO):** Allowance paid by the UNO to its employees is not taxable by virtue of section 2 of the United Nations (Privileges and Immunities) Act, 1947.

**3. Compensatory allowance under Article 222(2) of the Constitution:** Compensatory allowance received by judge under article 222(2) of the constitution is not taxable since it is neither salary nor perquisite.



## 2. Income under the head Salaries

**4. Sumptuary allowances:** Sumptuary allowance given to High Court Judges under section 22C of the High Court Judges (conditions of service) Act, 1954 and Supreme Court Judges under section 23B of the Supreme Court Judges (Conditions of service) Act, 1958 is not chargeable to tax

### **5. Allowance payable outside India [Section 10(7)]**

Allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for services rendered outside India are exempt from tax. Students may remember that in such cases under section 9(1)(iii), the income chargeable under the head 'Salaries' is deemed to accrue in India. The residential status of the recipient will, however, not affect this exemption.

### Concept 4: PERQUISITES

#### 4.1) What is perquisites?

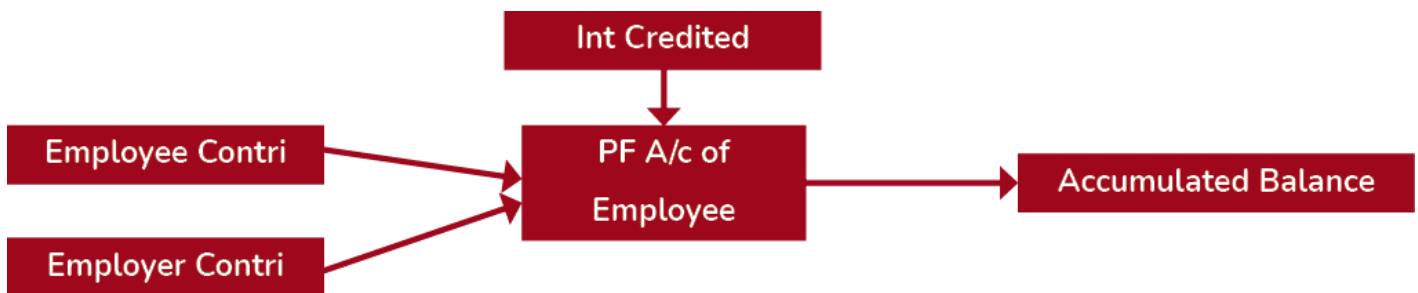
a) A Perquisite is an additional benefit derived by the employee **by virtue of his position**.

**Perquisite may be received in kind.** Perquisite must be from employer to the employee.

b) Reimbursement of expenses for discharging office duties is not a perquisite.

#### 4.3) Tax Treatment of Provident funds Sec.10 and 10 (12)

##### **a) Understanding the concept**



##### **b) Different Types of Provident Fund**

###### **i) Recognized provident fund (RPF)**

Recognized provident fund means a provident fund recognized by the commissioner of income-tax for the purposes of income-tax.

###### **ii) Unrecognized provident fund (URPF)**

A fund not recognized by the Commissioner of income-tax is Unrecognized provident fund.

###### **iii) Statutory provident fund (SPF)**

The SPF is governed by provident funds Act, 1925. It applies to employees of

## 2. Income under the head Salaries

Government, railways, semi-government, institutions, local bodies, universities and all recognized educational institutions.

### iv) Public provident fund (PPF)

Public provident fund is operated under the public provident fund Act, 1968. The fund is open to every individual.

An individual may contribute to the fund on his own behalf as also on behalf of a minor of whom he is the guardian. For getting a deduction under section 80C, a member is required to contribute to the PPF a **minimum of Rs. 500 in a year**. The maximum amount that may qualify for deduction on this account is **Rs. 1,50,000 as per PPF rules**.

Interest on PPF is exempt from tax.

### c) Taxability of Provident Fund

Sec.	Particulars	SPF	RPF	URPF	PPF
10(11)	Employer's Contribution	Exempt	Exempt up to 12% of Salary	Exempt	N.A. (as there is only Assesses Own contribution)
10(11)	Interest credited	Exempt (See note 3 below)	Exempt up to 9.5% p.a (See note 3 below)	Exempt	Fully exempt
80C	Employees Contribution	Available	Available	Not Available	Eligible for deduction u/s 80C
10(12)	Lump sum payment at the time of retirement/ termination Of service	Exempt u/s 10(11)	Exempt (as per Note 1) u/s 10(12)	Taxable (as Per Note 2)	Exempt u/s 10(11).

**Note 1:** If following conditions are satisfied by the employee:

- i) 5 or more years of continuous service with the employer.
- ii) Not able to render continuous service due to ill health.

Accumulated balance will be taxable if the fund becomes unrecognized

## 2. Income under the head Salaries

### Note 2:

*Payment from unrecognized Provident fund is taxable as follows -*

Particulars	Chargeability to Tax
Employee's Contribution	Getting back own money invested not an income
Employer's Contribution	Taxable as "Income from Salaries"
Interest on Employer's Contribution	Taxable as "Income from Salaries"
Interest on Employee's Contribution	Taxable as "Income from other Sources"

### *Meaning of Salary*

$$HRA = B + DA (If \dots) + Comm (\% \text{ of } TO)$$

### Note 3:

#### *Amendment by FA 2021*

*Exemption u/s 10(11) or 10(12) not available for interest accrued during the PY to the extent it relates to the contribution made by that person/employee exceeding ₹2,50,000 in any PY in that fund, on or after 01/04/21.*

*If in that fund employer has not made any contribution, then a higher limit ₹5,00,000 would be applicable.*

*It may be noted that interest accrued on contribution to such funds upto 31/03/21 would be exempt without any limit, even if the accrual of income is after that date.*

*The above is effective from FA 2021 w.e.f. AY 22-23.*

*Interest income accrued during the previous year which is not exempt from inclusion in the total income of a person (taxable interest) shall be computed as the interest accrued during the previous year in the taxable contribution account.*

*For this purpose, separate accounts withing provident fund account shall be maintained during the previous year 2021-22 and all subsequent years for taxable contribution and non taxable contribution made by a person.*

Sr.No	Medical treatment in	Exempt/Taxable
1.	Government hospital	
2.	Employers Hospital	
3.	Income Tax approved hospital	
4.	In Private Hospital/other hospital	

## 2. Income under the head Salaries

5.	<p><i>Medical treatment outside India</i></p> <p>_____ &amp; _____: Will not be treated as perquisite if the expenses are approved by RBI.</p> <p>_____ : Will not be treated as perquisite if the GTI of the employee does not exceed Rs 200000 p.a</p> <p>Note - Travel &amp; stay abroad of patient + 1 attendant allowed</p>	
6.	<p>Group Medi-claim insurance obtained for Employees</p>	Exempt from tax
7.	<p>Any medical expenses in relation to Covid-19 incurred by employer for his employee or his family members</p>	Exempt from tax (FA 2022)
8.	<p>Premium paid for health insurance of employee</p>	Exempt
9.	<p>Reimbursement of premium for health insurance of employee or family member.</p>	Exempt

Yearly threshold limit is `5,00,000, if the contribution by such person/ employee is in a fund in which there is no employer's contribution and `2,50,000 in other cases.

### Conditions for Covid related expenses to be exempt.

- i. The Covid-19 positive report of the employee or family member.
- ii. All necessary documents of medical treatment of the employee or his family member for Covid-19 or illness related to Covid-19 suffered within 6 months from the date of being determined as Covid-19 positive; and
- iii. A certification in respect of all expenditure incurred on the treatment.

### d) Illustration:

Mr. A retires from service on December 31, 2023, after 25 years of service. Following are the particulars of his income/investments for the previous year 2023-24:-

	Rs.
Basic pay @ 16,000 per month for 9 month	1,44,000
Dearness pay (50% forms part of the retirement benefits) 8,000p.m for 9 months	72,000
Lumpsum payment received from the unrecognized provident fund	6,00,000
Deposits in the PPF account	40,000

## 2. Income under the head Salaries

Out of the amount received from the unrecognized provident fund, the employer's contribution was Rs. 2,20,000 and the interest thereon Rs. 50,000. The employee's contribution was Rs. 2,70,000 and the interest thereon Rs. 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2023-24 (module question)

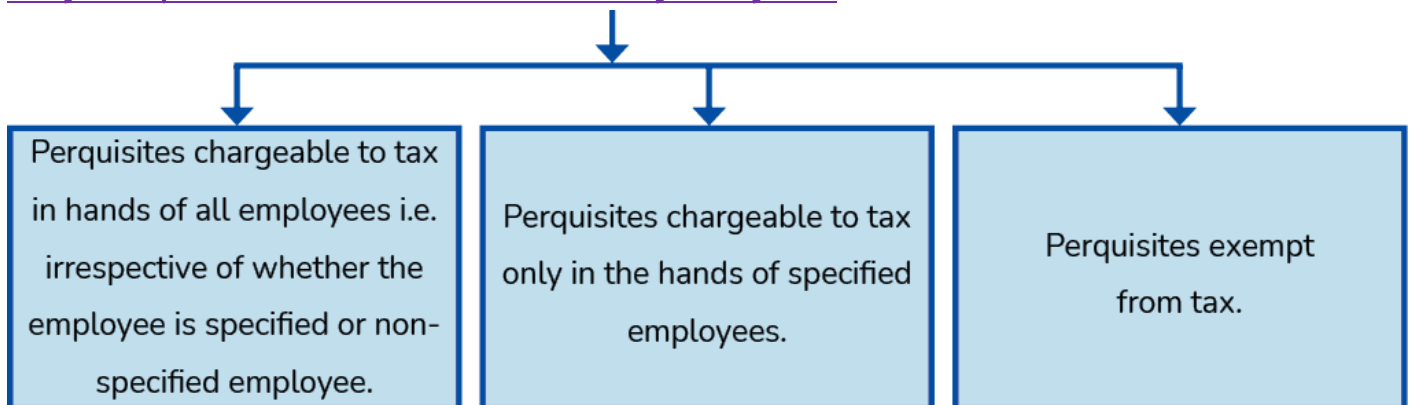
### **Solution:**

Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2023-24 is computed here under.

Particulars	Rs.	Head of Income
1) Employer's share in the payment received from the URPF	2,20,000	
2) Interest in the employer's share	50,000	
3) Interest in the employee's share	60,000	
4) Employee's share	2,50,000	

Since the employee is not eligible for deduction under section 80C for contribution to URPF at the time of such contribution, the employee's share received from the URPF is not taxable at the time of withdrawal as this amount has already been taxed as his salary income.

### 4.4) Perquisite divided into the following categories



#### **1) Perquisites taxable in hands of both. Specified & Non Specified employees:**

**i) Interest credited to RPF up to 9.5% is tax - free. Above 9.5 % is taxable.**

**ii) Employer's contribution to recognized PF is exempt up to 12% of salary. Contribution in excess of 12% of salary is taxable.**

## 2. Income under the head Salaries

**iii) Interest free loans /loans at concessional rate** - If a loan is given to the employee by the employer, interest loans is chargeable to tax as perquisite. Interest is to be calculated on monthly outstanding balance at SBI lending rates as on first day of the previous year.

### Exceptions:

1) If the amount of original loans (or additional loan) does not exceed in the aggregate of Rs. 20,000/-

2) If the loan is given for medical treatment of diseases specified in rule 3 A.

[However exemption is not applicable to so much of loan that has been reimbursed to the Employee under insurance scheme.

### Hint:-

**4) Use of movable assets of the employer:** if the employee (or any member of his household) Uses any moveable assets which belongs to the employer then the value of the perquisite is =

- Use of employer's computers & laptops is

**5) Moveable asset sold by the employer to the employee:**

If any moveable asset is sold by the employer to the employee at a concession, then the value of Such perquisite is calculated as follows

Perquisite =

int =

WDV is calculated as follows:

Particulars	Electronic items/ Computers	Motor car	Others
Rate of Depreciation	50%	20%	10%
Method of Depreciation	WDV	WDV	SLM
Assets Covered	Electronic devices like data storage and handling devices like computer, digital diaries and printers.	Motor car	White goods - household appliances like washing machines, microwaves, oven, mixers, refrigerator, and hot plates.

## 2. Income under the head Salaries

Depreciation is calculated for completed number of years.

E.g. If WDV of the asset comes to Rs. 20000 and the asset is sold to employee at Rs. 12000 the value of perquisite chargeable to tax is Rs. 8000 [20000-12000] However if this asset is sold for Rs. 25000 then there is no benefit and hence no perquisites.

6) Any payment or reimbursement by the employer to the employee which amounts to **fulfillment Of obligation** of the employee is a perquisite taxable in the hands of both employees (Specified and Non Specified.)

7) **Perquisite in respect of gift, voucher and token** Gifts received by the employee or any of his family member would be exempt from tax. Gifts in excess of Rs 5000 would be taxable.

However the exemption is not available in case of gifts in cash or convertible into money i.e. gift cheques.



E.g.1) The employer provides a gift cheque of Rs 3000 and also a wrist watch of Rs 18000 to X.

Perquisite is \_\_\_\_\_

2) Rs. 6000 cash gift from the employer. Perquisite = \_\_\_\_\_

### 8) Travelling Touring and Accommodation:

Perquisite = Expenses incurred by the employer – Exp incurred for official purpose – Amt recovered from employee

No.	Particulars	Perquisite
1.	Mr. X went to Mumbai for personal work. His employer paid for his trip. The total expenditure was Rs. 30,000	
2.	Assume in above that he had gone to Mumbai for office work	
3.	Mr. X went to Bangalore for office work for 5 days. He extended the stay for another 5 days for personal work. The total expenditure incurred by employer was Rs. 80,000	
4.	Company paid all travelling bills of Mr. X of Rs. 76500. Out of which official trips amounted to 51000 and 5000 was recovered from Mr. X	

## 2. Income under the head Salaries

**9) Credit Card expenses** – Expenses incurred by the employer in respect of credit card used by the employee or any member of his household.



**Perquisite = Expenses incurred by the employer – Exp incurred for official purpose – Amt recovered from employee**

Expenditure incurred by the employer also includes membership fees and annual fees. In case of expenses for official purpose a proper record must be maintained and the same should be certified by the employer.

*E.g. Company paid the credit card bills of the employee Mr. A of Rs. 58,000. Out of which X Had incurred Rs. 32,000 for official work. Amount recovered from employee is Rs. 8,500.*

*Ans.*

**10) Club Expenditure** – expenses incurred by the employer on the club facility used by the employee or his household members.

**Perquisite = Expenses incurred by the employer – Exp incurred for official purpose – Amt recovered from employee**

In case of expenses for official purpose a proper record must be maintained and the same should be certified by the employer.

*E.g. Company paid the club bills of Mr. X Rs. 60,000, out of which expenses for office purpose were Rs. 31,500. The company recovered Rs. 18,000 from Mr. X.*

**Exceptions:**

a) Health club and sports facility provided uniformly to all employees at the employers premises are exempt from tax.



## 2. Income under the head Salaries

b) In case the club membership is corporate or institutional (the benefit does not remain with the employee after the cessation of the employment), the initial fees and the deposits will not be included in the value of perquisites.

**11) Lunch and refreshment** - If free meals are provided to the employee the perquisite is as follows:

$$\text{Perquisite} = \text{Cost to the employer} - \text{Rs. 50 per meal} - \text{Amt recovered from employee (if any)}$$

### Exceptions:

- Tea/non-alcoholic beverages and snacks provided during working hours in office is not charged as perquisite.
- Food, tea, non-alcoholic beverages provided during working hours in remote area or off-shore installation is not taxable.
- Free meals up to Rs. 50 per meal are exempt from tax.

**Eg:** Employer provides tea/coffee in office expenditure being Rs 6000 p. a and lunch during office hours costing Rs 120 per meal for 300 working days and recovers Rs 10 per meal from X. The value of perquisite is \_\_\_\_\_.

(However exemption would not be available in case of an employee, being an assessee, who opts for the provisions of section 115BAC)

**12) Employers Contribution to Superannuation Fund** - From A Y 2010-11 employers contribution to superannuation fund is taxable in excess of Rs One lakh fifty thousand per assessment year. It is taxable in the year the contribution is made.

$$\text{Perquisite} = \text{Employers contribution for the year} - \text{Rs 1.5 Lakh}$$

**E.g.** ABC Ltd. deposited Rs. 1,80,000 in Superannuation Fund of Mr. X, their employee.

### 13) Employee Stock Option Plan / Sweat equity:

Under this scheme the shares are allotted to the employees at concessional rate or for a consideration other than cash. Such benefit is taxable as perquisite in the hands of the employee.

## 2. Income under the head Salaries

$$\text{Perquisite} = \text{FMV as on the date the employee exercises the option} - \text{Cost to the employee (FMV as on the date of allotment is not relevant)}$$

Tax on perquisite of specified securities and sweat equity shares is required to be paid in the year

of exercising the option. However, where such shares or securities are allotted by the current employer, being an eligible start-up the perquisite is taxable in the year

a) after the expiry of 48 months from the end of the relevant assessment year

b) in which sale of such security or share are made by the assessee

c) in which the assessee ceases to be the employee of the employer.

Whichever is earlier.

FMV of shares -

Calculation of FMV as per Rule 3(8)

1. If the share is listed on a recognized stock exchange	$\text{FMV} = \frac{\text{Opening price} + \text{Closing price}}{2}$ <p>(price as on that date on the said stock exchange)</p>
2. If the share is listed on more than one recognized stock exchange	$\text{FMV} = \frac{\text{Opening price} + \text{Closing price}}{2}$ <p>(price of the share on the recognized stock exchange which records the highest volume of trading in the share)</p>
3. If there is no trading in the share on any recognized stock exchange	<p>FMV=</p> <p>a) The <b>closing price</b> of the share on any recognized stock exchange on a date closest to the date of exercising of the option and immediately preceding such date; or</p> <p>b) If share is listed more than 1 recognised stock exchange consider the <b>closing price</b> of the stock exchange which records highest volume of trading.</p>
4. If on the date of exercising the option, the share is <b>not listed</b> on a recognized stock exchange	<p>FMV= Value as determined by a <b>merchant banker</b> on the specified date</p>

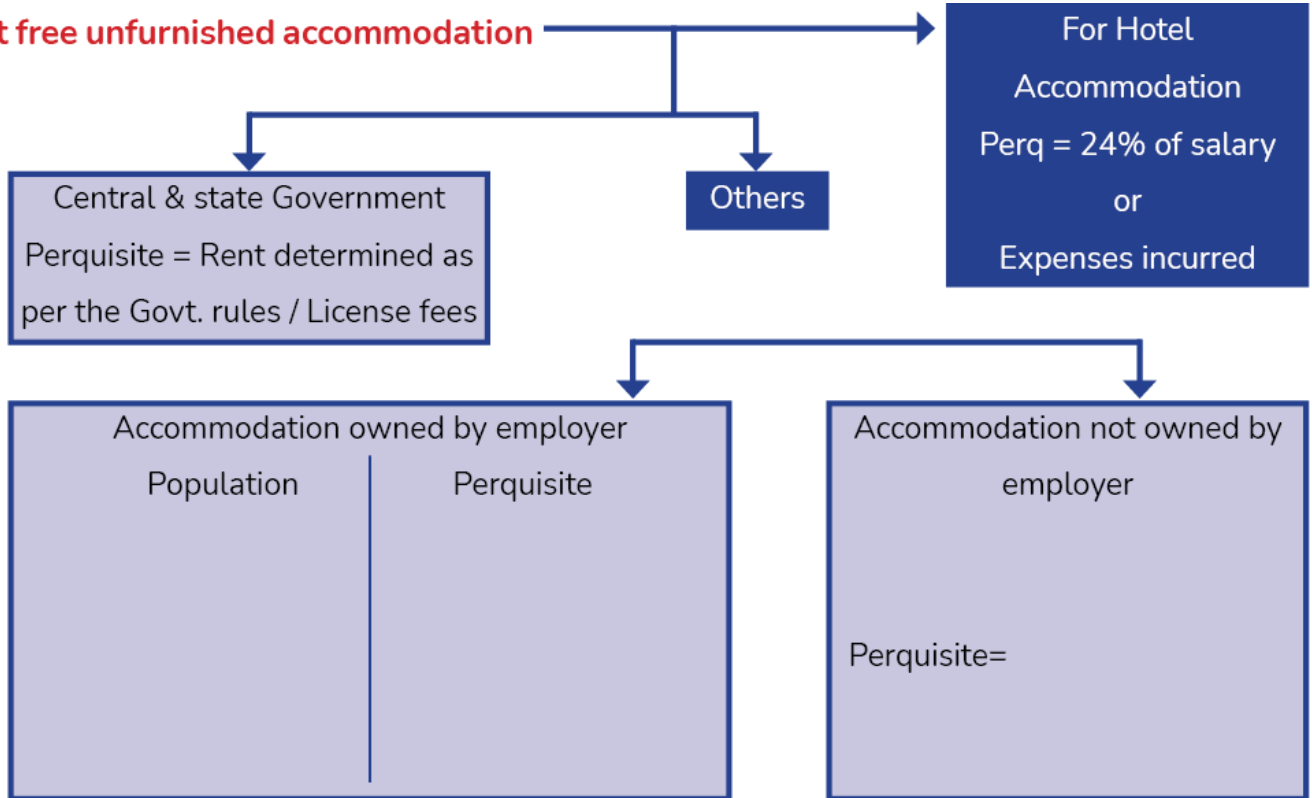
E.g. XYZ Ltd. offered Mr. A, it's employee ESOP's - 1000 shares for Rs. 80 per

## 2. Income under the head Salaries

share on 10/07/2023, FMV on that date was Rs. 120 per share. Mr. A exercised the option for 1000 shares on 10/08/2023. FMV on that day was Rs. 130 per share. The shares were allotted on 10/09/2023. The FMV on that day was Rs. 128 per share. Calculate perquisite.

14)

### Rent free unfurnished accommodation



### Remember the following points:

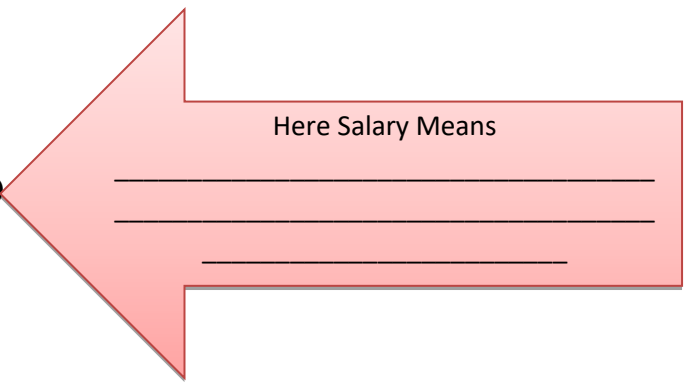
#### a) 'Salary' for this purpose means -

- 1) Basic salary
- 2) D.A. (if considered for retirement benefits)
- 3) Bonus
- 4) Commission
- 5) Fees
- 6) All other taxable allowances (excluding the amount not taxable); and
- 7) Any monetary payment by whatever name called (perquisite are not included, i.e. obligation of employee paid by the employer is not to be included)

b) Salary should be in respect of the period during which the accommodation is occupied by the employee. Salary for above calculation is taken on **due basis**.

c) Consider salary only for the **period for which accommodation is provided**.

### In case of furnished accommodation



## 2. Income under the head Salaries

Perquisite = Perquisite for accommodation + Perquisite for furniture



### Exceptions:

Following are exempt from tax

- 1) Rent free furnished accommodation given in a remote area.
- 2) A temporary accommodation of 800 sq.ft. given at a mining site.
- 3) If hotel accommodation is provided on transfer for a period not exceeding 15 days then it is not chargeable to tax
- 4) Rent free official accommodation provided to a judge of H.C or S.C. or an official of the parliament, a union minister & a leader of opposition in parliament.

### 15) Medical Facility : -

Sr.No	Medical treatment in	Exempt/Taxable
1.	Government hospital	
2.	Employers Hospital	
3.	Income Tax approved hospital	
4.	In Private Hospital/other hospital	
5.	<p><b>Medical treatment outside India</b></p> <p>_____ &amp; _____: Will not be treated as perquisite if the expenses are approved by RBI.</p> <p>_____ : Will not be treated as perquisite if the GTI of the employee does not exceed Rs 200000 p.a</p> <p>Note - Travel &amp; stay abroad of patient + 1 attendant allowed</p>	
6.	Group Medi-claim insurance obtained for Employees	Exempt from tax
7.	Any medical expenses in relation to Covid-19 incurred by employer for his employee or his family members	Exempt from tax (FA 2022)
8.	Premium paid for health insurance of employee	Exempt
9.	Reimbursement of premium for health insurance of employee or family member.	Exempt

Conditions for Covid related expenses to be exempt.

## 2. Income under the head Salaries

- i. The Covid-19 positive report of the employee or family member.
- ii. All necessary documents of medical treatment of the employee or his family member for Covid-19 or illness related to Covid-19 suffered within 6 months from the date of being determined as Covid-19 positive; and
- iii. A certification in respect of all expenditure incurred on the treatment.

### 16) Sec 10(5): Leave Travel Concession:

a. Leave Travel assistance extended by an employer to employee for going anywhere in India along with his family is exempt on the basis of provision given in the table below.

b. Family for above includes:

1. The Spouse, Children of the employee

2. The Parents, Brothers & sisters of the individual who are wholly & mainly dependent upon the employee.

LTC is simply a perquisite where the exemption is dependent on the expenditure incurred.

**Exemption =**

c. The exemption is available in respect of fare only

d. The exemption is available twice in a block of four calendar years (Relevant block 2006-2009, 2010-2013, 2014-2017, 2018-2021, 2022-2025)

e. In case such travel concession is not availed of by the employee during any such block of Four calendar years he can avail concession in 1<sup>st</sup> year of next block.

f. The Exemption shall not be available to more than 2 surviving children of an employee.

This rule will not apply in respect of children born before October 1, 1998 and also in case of multiple births after one child.

1<sup>st</sup> time = 1 child

2<sup>nd</sup> time

Then exemption allowed to 3 children

1<sup>st</sup> time = twins

2<sup>nd</sup> time = 1 child

Then exemption allowed only to 2 children

## 2. Income under the head Salaries

### Amount of exemption:

Different Situation	Amount of Exemption
Where journey is performed by air	Amount of economy class fare of the nation carrier by the shortest route or the amount spent whichever is less
Where journey is performed by rail	Amount of Air Conditioned 1 <sup>st</sup> Class rail fare by the shortest route or amount spent, whichever is less.
Where the places of origin of journey and destination are connected by rail and journey is performed by any other mode of transport	Amount of Air conditioned 1 <sup>st</sup> class rail fare by the shortest route or the amount spent whichever is less.
Where the places of origin of journey & Destination are not connected by rail - Where a recognized public transport system exists - Where no recognized public transport system exists	First class or deluxe class fare by the shortest route or amount spent, whichever is less. Air conditioned first class rail fare by the shortest route (as if the journey has been performed by rail) or the amount actually spent, whichever is less.

**17) Amount or the aggregate of amounts of any contribution made to the assessee by employer (a) in a recognized provident fund (b) in NPS (c) in an approved superannuation fund [Section 17(2)(vii)] in excess of 7,50,000 will be treated as perquisite.**

a) Employer contri to RPF	XX
b) Employer contri to NPS	XX
c) Employer contri to superannuation fund	XX
<b>Total</b>	

**The total amt - 7,50,000 = perquisite**

**18) Annual accretion to the balance at the credit of the recognized provident fund/NPS/ approved superannuation fund which relates to the employer's contribution and included in total income (an account of the same having exceeded 7,50,000)**

Int on the amt of perquisite as per 17(2)(vii) i.e. point 17 shall be treated as perquisite.

This is perquisite u/s 17(2)(viiia)

## 2. Income under the head Salaries

Manner of computation of taxable perquisite u/s 17(2)(viiia) is given vide notification No. 11/2021 dated 5.3.2021.

Any excess contribution above 7,50,000 is chargeable to tax in the hands of the employee.

Consequently any annual accretion by way of its interest, dividend or any other amount of similar nature during the previous year to the balance at the credit of the fund or scheme may be treated as perquisite to the extent it relates to the employer's contribution which is included in total income.

I.e., In other words any interest, dividend or any other amount of similar nature on the amount which is included in the total income u/s 17(2)(vii) (ie., point no. 15)

The perquisite u/s 17(2)(viiia) shall be calculated as follows

$TP = (PC/2)*R + (PC1 + TP1)*R$	
TP	Taxable perquisite under of section 17(2)(viiia) for the current previous year.
TP1	Aggregate of taxable perquisite under section 17(2)(viiia) for the previous year or years commencing on or after 1.4.2020 other than the current previous year (See Note)
PC	Amount or aggregate of amounts of employer's contribution in excess of Rs. 7.5 lakh to the specified fund or scheme during the P.Y.
PC1	Amount or aggregate of amounts of employer's contribution in excess of Rs. 7.5 lakh to the specified fund or scheme for the previous year or years commencing on or after 1 <sup>st</sup> April, 2020 other than the current previous year (See Note)
R	I/ FAVG
I	Amount or aggregate of amounts of income accrued during the current previous year in the specified fund or scheme account.
FAVG	(Amount or aggregate of amounts of balance to the credit of the specified fund or scheme on the first day of the current previous year + Amount or aggregate of amounts of balance to the credit of the specified fund or scheme on the last day of the current previous year.

Specified fund or scheme means recognised provident fund, NPS referred to in section 80CCD(1) and an approved superannuation fund.

**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 the first day of the current previous year, 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.

## 2. Income under the head Salaries

### 19. Perquisites also includes

Employers contribution to the account of employee under pension scheme u/s 80CCD  
Contribution made by central govt to the Agniveer Corpus Fund Account of an individual enrolled in Agniveer scheme referred in section 80CCH.

### 20. Any other perquisites.

#### II) Perquisite for SPECIFIED EMPLOYEES:

The following are specified employees:

- 1) A person who is **director** of the company - employee.
- 2) A person having a **substantial interest** in the company (beneficial owner of equity shares carrying 20% or more voting power).
- 3) Employee drawing **monetary salary of more than Rs. 50,000/- p.a.** for the purpose of monetary salary, only taxable portion of allowances is considered. Further, entertainment allowance deductible and professional tax u/s 16 & standard deduction should be also deducted for checking the limit of 50000/-

**1) Facility of sweeper, gardener, watchman, domestic servant etc.** The value of the perquisite is equal to the actual expenditure incurred by the employer. However if accommodation owned by the employer is provided to the employee (either rent - free or at concessional rent) then the gardener's salary is not taxed as a separate perquisite.

Servant appointed by	Salary paid - 15000	Perquisite
Employer		
Employee		

**2) Education facility** - Education facility in employers institute is taxable only in hands of Specified employees

Cost of facility	Perquisite for Employee Children	Perquisite for Member of household (other than children)
Upto 1000 per month per child		
Above 1000 per month per child		



## 2. Income under the head Salaries

No restriction on number of children.

1) Amount spent on providing free education facilities and training of employees is not taxable.

2) Payment of school fees of employees children directly to school or reimbursement to the employee is taxable as perquisites in hands of specified as well as specified employees [as it is fulfillment of obligation]

*E.g.1) Son of Mr. X studies in the Employers school in STD V. The school fees otherwise is Rs 43000 but employer recovers only 4500 from his employee. Calculate the perquisite*

*E.g.2) Assume in the above eg. instead of employee's son his relative/ brother studies in class V. Other things remaining the same calculate the perquisite.*

**3) Gas, Electric Energy and Water** - The value of benefits resulting from the supply of gas, Electric energy or water shall be equal to

$$\text{Perquisite} = \text{Amount paid by the employer or cost to the employer} - \text{Amount recovered from employee (Cost If the supply is made from own resources)}$$

**4) Free transport** - If transport facility is provided by a transport undertaking to its employees & family members the perquisite is

$$\text{Perquisite} = \text{Cost to the employer} - \text{amt recovered from the employee}$$

### Exceptions:

Transport facility provided by railways and airline to its employees is exempt from tax.

E.g. Employer provided transport facility to X and his family. Cost to the employer is Rs 18000 And amount recovered from X is Rs. 1000. Perquisite = \_\_\_\_\_

### 7. Motor Vehicle

Situation 1: Car owned by employer, Expenses met by employer				
	O	P	O + P	
1)	Not a Perquisite	Exp incurred by Employer (+)10% p.a of cost of car case car is owned (+) hire charges. (-) Amt recovered	CC	Perquisite Value
			Upto 1.6 litres	Rs. 1,800 p.m. (+)900 p.m (in case of chauffer)
			Above 1.6 litres	₹Rs. 2,400 p.m. (+) 900 p.m (in case of chauffer)
Amt recovered from employee is not to be deducted				
Situation 2: Car owned by employee, Expenses met by employer				
	O	P	O + P	
			CC	Perquisite Value
2)	Not a Perquisite	Actual exp (-) Amt recovered from employee	Upto 1.6 litres	Actual Exp(-)1800 pm(-)900pm (in case of chauffer)(-)Amt recovered from employee.
			Above 1.6 litres	Actual Exp(-)2400 pm(-)900pm (in case of chauffer)(-)Amt recovered from employee.
Situation 3: Car owned by employer, Expenses met by employee				
	O	P	O + P	
			CC	Perquisite Value
3)	Not a Perquisite	Actual expenses (If incurred by the employer) (+)hire charges (if car is hired) (-) Amt the employee	Upto 1.6 litres	Rs.600 p.m. + 900 p.m.( in case of chauffer )
			Above 1.6 Litres	Rs. 900 p.m. + 900 p.m.( in case of chauffer )

## 2. Income under the head Salaries

### Notes:

1. If more than 1 car is provided for personal & office purpose then

For car 1 → Treated as O + P

For car 2 → Treated as fully P

2. The benefit of use only for official purposes is available only if the following documents are

a. The **employer has maintained complete details** of journey undertaken for official purpose which may include date of journey, destination, mileage, and the amount of expenditure.

b. The **employer gives a certificate to the effect** The employee can also be allowed a higher deduction for expenses for official use if the above documents are maintained.

3. If the vehicle is provided for journey between residence to office and back then there is no Perquisite.

4. Only completed months to be taken for valuation. Part of the month is to be ignored.

### III) Perquisite Exempt From Tax

1. Medical facility in govt. hospital

2. Medical facility in employers hospital

3. Medical facility in income tax approved hospital.

4. Perquisites paid by Indian govt. to Indian national working abroad

5. Employer's contribution to statutory provident fund

6. Interest credited to statutory provident fund

7. Lump sum payment to statutory provident fund at the time of retirement or termination of service

8. Employer's contribution to recognized provident fund exempt upto 12% of salary

9. Interest credited to recognized provident fund exempt upto 9.5% p.a. on account balance

10. Lump sum payment to recognized provident fund at the time of retirement or termination of service exempt if employee renders 5 or more years of continuous service with the employer or not able to render continuous service due to ill health.

11. Employer's contribution to unrecognized provident fund

12. Interest credited to unrecognized provident fund

13. Interest free loan at concessional rate if the amount of original loan does not exceed 20000

## 2. Income under the head Salaries

14. Interest free loan at concessional rate if the loan is given for medical treatment of diseases specified in rule 3 A.
15. Use of employers computers and laptops
16. Gift received by employee or any of his family member exempt upto 5000.
17. Health club and sports facility provided uniformly to all employees at the employers premises are Exempt from tax.
18. Tea/non-alcoholic beverages and snacks provided during working hours in office
19. Food, tea, non-alcoholic beverages provided during working hours in remote area or off-Shore Installation.
20. Contribution to superannuation fund up to Rs 1.5lakh.
21. Group insurance schemes.
22. Employer state insurance scheme.
23. Fidelity guarantee scheme.
24. Rent free furnished accommodation given in a remote area.
25. A temporary accommodation of 800 sq.ft. given at a mining site.
26. If hotel accommodation is provided on transfer for a period not exceeding 15 days then it is Not chargeable to tax.
27. Rent free official accommodation provided to a judge of H.C or S.C. or an official of the parliament, a union minister & a leader of opposition in parliament.
28. Facility of gardener is exempt if accommodation is owned by the employer.
29. Education facility provided to employer children available upto 1000 per month per child
30. Amount spent on providing free education facilities and training of employees is not taxable  
This includes refresher management course including lodging & boarding
31. Transport facility provided by railways and airline to its employees is exempt from tax.
32. Subsidized tea and snacks provided at the office.
33. Car facility only for journey between office and home along with driver is fully exempt.
34. Subsidized telephone, reimbursement of telephone bills is perquisite exempt from tax.
35. Any medical expenses in relation to Covid 19 incurred by employer for his employee or family members is exempt from tax. (FA 2022)
36. Tax on non monetary perquisites paid by employer.
37. Medical insurance premium paid for employee / his family is exempt.

### Concept 5: DEDUCTIONS

#### 5.1) Section 16(ia) w.e.f. A.Y. 2019-20

a) Standard Deduction shall be available w.e.f. AY 19-20

Standard deduction = 50,000 or salary whichever is lower (Wef AY 20-21).

#### 5.2) Section 16 (ii) Entertainment Allowance

a) Entertainment Allowance is added as an allowance in salary while calculating Gross Salary.

b) Then a deduction is allowed only in case of Government employees.

c) Deduction is least of the following:

1) Entertainment Allowance actually received.

2) Rs. 5,000/- p.a.

3) 20% of Basic Salary.

#### 5.3) Section 16 (iii) Profession Tax/Tax on Employment

Deduction is allowed only on payment basis. If employer pays professional tax on behalf of the employee, then it should be taxed in the hands of employee as perquisite. And later on deduction u/s 16 can be claimed as Profession Tax has been paid.

	Case - I	Case - II (if P.T. paid by employer)
Basic salary	5,00,000	5,00,000
Bonus	50,000	50,000
Commission	1,00,000	1,00,000
P.T. paid by employer	-	2,500
<b>Gross salary</b>	<b>6,50,000</b>	<b>6,52,500</b>
Less: deductions u/s 16		
Standard Deduction	50,000	50,000

## 2. Income under the head Salaries

Entertainment allowance	-	-
Profession Tax	2500	2500
Net salary	5,97,500	6,00,000

### Concept 6: Keyman Insurance Policy

#### a) What is Keyman Insurance policy?

It is life insurance policy taken by employer on the life of an employee who is connected with the business of the employer.

#### b) What are the features relating to the keyman insurance policy?

1. Premium is allowed as a business expenditure while computing the income under the head "profits and gains from business or profession"

2. On maturity of the policy the amount received (including bonus) by an employer, is fully chargeable to tax under the head "profits and gains from business or profession"

3. In case of death of a keyman before maturity, full policy amount is received by the employer.

This amount is fully taxable under the head "profits and gains from business or profession".

4. The keyman insurance policy is surrendered when a keyman leaves before maturity. In that case surrender value received by an employer is fully chargeable to tax under the head "profits and gains from business or profession".

5. The Keyman insurance policy may be assigned to the keyman as per terms of employment. In that case surrender value (notional value) of a policy is chargeable to tax in the hands of the employee under the head "Income from Salaries".

6. Keyman can continue the policy by paying insurance premium on his own.

7. On maturity the proceed received from Keyman Insurance Policy shall not be exempt u/s 10(10D)

### Concept 7: Relief under Section 89

## 2. Income under the head Salaries

- a) Where due to some reasons arrears of salary could not be taxed on due basis then relief is extended to the assessee.
- b) In case of VRS compensation assessee can either claim tax exemption or relief. Assessee cannot claim both the benefits.
- c) Following are the steps for calculating relief:

Relief U/S 89
Relief when salary is paid in arrears or in advance [section 89]
1) Tax in year of receipt on Income + Arrears
2) Tax in year of receipt on income
3) Step 3 = Step 1 - Step 2
4) Tax in the year to which arrears relates to Tax on assessed Income + Arrears
5) Tax in the year to which arrears relates to Tax on assessed Income
6) Step 6 = step 4 - step 5
7) Step 7 (relief u/s 89) = step 3 - step 6

### Concept 8: Tax on perquisite paid by the employer Sec. 10(10CC)

Duty to pay tax on salary including that on perquisite is that of the employee.

Tax paid by the employer on	Tax impact in hand of the employee	Tax impact in the hand of the employer
Non Monetary perquisites	Not a perquisite Exempt u/s 10(10C)	It is not deductible expenditure u/s 40a
Monetary perquisites and tax paid other than on perquisites	Treated as perquisite	It is allowable expenditure

(You will understand this with Chapter PGBP)

### Concept 9: Concept of pay scale

Eg. Chameli joined Infosys as on 01/06/2020 on a pay scale of 80,000 - 1,000 - 90,000. Basic Salary

01/06/2020 to 31/05/2021	80,000 p.m.
01/06/2021 to 31/05/2022	81,000 p.m.
01/06/2022 to 31/05/2023	82,000 p.m.
01/06/2023 to 31/05/2024	83,000 p.m.
01/06/2024 to 31/05/2025	84,000 p.m.
01/06/2025 to 31/05/2026	85,000 p.m.
01/06/2026 to 31/05/2027	86,000 p.m.

## 2. Income under the head Salaries

01/06/2027 to 31/05/2028	87,000 p.m.
01/06/2028 to 31/05/2029	88,000 p.m.
01/06/2029 to 31/05/2030	89,000 p.m.
01/06/2030 to 31/05/2031	90,000 p.m.

### Concept 10: Comparison between default & optional regime

Particular	Optional	Default 115BAC
1. Deduction of EA	✓	x
2. Transport Allowance to handicapped Home Office	✓	✓
3. HRA exemption	✓	x
4. Traveling allowance exemption	✓	✓
5. Daily Allowance	✓	✓
6. Conveyance Allowance	✓	✓
7. LTC	✓	x
8. Agniveer Corpus		
a. 80CCH(2) CG	✓	✓
b. 80CCH(1) Employee	✓	x
9. Helper Allowance	✓	x
10. Research Allowance	✓	x
11. Uniform Allowance	✓	x

### KYC-Know Your Concepts

No	Questions
1.	Interest credited to RPF is Rs 31200. It is @ 12.5 %. Taxable perquisite is
2.	Education allowance for three children Rs 65 per month per child. Actual expenditure of Mr. Kumar is 3500.



## 2. Income under the head Salaries

3.	Conveyance allowance for official work Rs 23000 p a. Actual expenditure is Rs 18500.
4.	Transport allowance for commuting between office and residence Rs 1715 p.m. Actual Expenditure is Rs 15400.
5.	Medical Bills of Rs 31000 were reimbursed by the Company.
6.	In addition, a medical allowance of Rs 300 pm was also given
7.	Tiffin allowance Rs 200 p m
8.	Research allowance of Rs 300 p m. actual expenditure is Rs 4800
9.	Free holiday home facility Rs.17600
10.	Free use of the employer's laptop, which was costing Rs 65000.
11.	Free use of music system from 1 <sup>st</sup> October 2022. Cost of the system is 34000 and its WDV is Rs 15880.
12.	Subsidized Use of telephone at the residence. Cost to the employer Rs 9500

## 2. Income under the head Salaries

13.	Leave Travel concession given Rs 24600. Cost on traveling incurred by the employee Rs 19800.
14.	Leave Travel concession given Rs 24600. Cost on traveling incurred by the employee Rs 34800.
15.	Hostel allowance for 2 children Rs 250 per child per month. Actual expenditure of the employee Rs 8400 p.a. for two children.
16.	Free cook and sweeper provided at employee's residence. Salary of cook Rs 2000 pm and sweeper Rs 2500 p m
17.	Lunch Allowance Rs 800 p m. Actual expenditure on Lunch incurred by the employee Rs 400 p.m
18.	In case lunch allowance is not provided and lunch facility is provided at the office for Rs 10 per meal. Cost of per meal to the employer Rs 65 per meal. Such facility is provided for 290 working days.
19.	Medical facility for employee and family members in government hospital. Cost to the employer Rs 5600 for the year.
20.	Uncommuted pension is ----- (Taxable / not taxable) in the hand of the employee.
21.	Leave encashment during employment is--- (Taxable / not taxable) in the hand of the employee.
22.	What is salary for the purpose of HRA
23.	Employee's contribution to Recognized Provident Fund
24.	Employee's contribution to Statutory Provident Fund

## 2. Income under the head Salaries

25.	Employer's contribution to Statutory Provident Fund
26.	Subsidized tea and snacks provided at office. Cost to the employer Rs.1,800
27.	Employer provided free use of car with driver for official & personal use. Expenses of employer Rs.88,000.
28.	Free use of Maruti 800 for official use. Car can be also be used for journey between office and residence and other domestic purpose
29.	Free meal (at work place) Rs.14,700 (Rs. 70 per day for 210 days)
30.	Net Salary Rs.90,000. TDS Deducted Rs.10,000.
31.	Employer provides Maruti Alto car for personal use of employee. Employer's expenses Rs.1,37,800 and depreciation of car @ 10% Rs. 12,600.
32.	On October 15, 2023, the company gives its music system to Mr. Y for domestic use ownership is not transferred. Cost of music system to employee in 2020 was 15000.
33.	Employee has taken a loan from RPF (maintained by employer) Rs. 60,000
34.	Lunch provided by the employer during office hours. Cost to the employer Rs. 24,000/-
35.	Medical Insurance premium of Rs. 8,000 paid by the employer to effect an insurance on the health of the employee
36.	Value of free lunch facility Rs. 2,200 treated as exempt assuming value does not exceed Rs. 50 per meal.

## 2. Income under the head Salaries

37.	Mr. X received Rs. 6,00,000 as accumulated balance of RPF
38.	X is employed on 1st Dec 2022 in scale of 40000-2000-50,000 what will be his salary for P Y 23-24

### Questions for Practice

#### Leave Encashment Sec. 10(10AA)

1) Mr Gupta retired on 1.12.2023 after 20 years of service and received leave salary of 5,00,000.

Other details of his salary income are:

Basic salary: Rs. 5000 P.M. (Rs1,000 was increased w.e.f 1.4.2023) Dearness

Allowance: 3000 P.M. (60% of which is for retirement benefits) Commission: 500 per month

Bonus: 1,000 per month

Leave availed during service: 480 days

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

a. He is a government employee.

b. He is a non-government employee. (Module Question Pg.3.37 illustration 5)

#### Gratuity Sec. 10 (10)

2) Mr B is working in XYZ Ltd. and has given the details of income for the PY 2023-

24. You are required to compute his gross salary from the details given below.

Basic salary - Rs. 10,000 per month

DA (50% is for retirement benefits) - Rs. 8,000 per month Commission as a percentage of turnover - 0.1%

Turnover during the year Rs. 50,00,000 Bonus - Rs. 40,000

Gratuity - Rs. 25,000

His own contribution in the RPF - Rs. 20,000

Employer's contribution to RPF - 20% of his basic salary

Interest accrued in the RPF @ 13% pa - Rs.13,000. Compute Gratuity (Module question Pg.3.45 illustration 8)

### Gratuity Sec. 10 (10)

3) Mr. Ravi retired on 15.06.2023 after completion of 26 years 8 months of service and received gratuity of 15,00,000. At the time of retirement, his salary was:

Basic salary: 50,000 p.m.

Dearness Allowance - 10,000 p.m. (60% of which is for retirement benefits)

Commission - 1% of turnover (turnover in the last 12 months was 1,20,00,000)

Bonus - 25,000 p.a

Compute his taxable gratuity assuming:

- He is private sector employee and covered by the Payment of Gratuity Act, 1972.
- He is private sector employee and not covered by the Payment of Gratuity Act, 1972.
- He is a Government Employee. (Module Question Pg 3.33 illustration 4)

4) Determine the amount of pension taxable for the assessment year 2024-25. In the following cases

on the assumption that the pension becomes due on the last day of the month.

- X retires from the Indian Economic Service on August 31, 2023 and received Rs.10,000 per month as pension.
- X retires from the Indian Administration on May 31, 2023, He gets pension of Rs.19000 per month up to June 30, 2023. With effect from July 1, 2023, he gets 30% of his pension commuted for Rs.3,00,000/-
- X retires from PQR (P) Ltd. in December 2018 and receives Rs.1210 per month up to February 28, 2024 when he dies.
- Mr. Sagar who retired on 1.10.2023 is receiving Rs. 5,000 p.m. as pension. On 1.2.2024, he commuted 60% of his pension and received Rs. 3,00,000 as commuted pension. You are required to Compute his taxable pension assuming:
  - He is a Government employee
  - He is a private sector employee and received gratuity of Rs. 5,00,000 at the time of retirement.
  - He is a private sector employee and did not receive any gratuity at the time of retirement. (Module question Pg3.30 illustration 3)

## 2. Income under the head Salaries

### General Salary Problems

5) Mr. Vignesh, Finance Manager of KLM Ltd., Mumbai, furnishes the following particulars for the financial year 2023-24:

- i) Salary Rs. 46,000 per month
- ii) Value of medical facility in a hospital maintained by the company 7,000
- iii) Rent free accommodation owned by the company.
- iv) Housing loan of 6,00,000 given on 01-04-2023. at an interest rate of 6% per annum (No repayment made during the year). The rate of interest rate charged by SBI as on 01-04-2023. in respect of housing loan is 9.45%
- v) Gifts in kind made by the company on the occasion of wedding anniversary of Mr. Vignesh 4,750.
- vi) A wooden table and 4 chairs were provided to Mr. Vignesh at his residence (dining table). This was purchased on 1-5-2020 for 60,000 and sold to Mr. Vignesh on 1-8-2023 for 30,000.
- vii) Personal purchases through credit card provided by the company amounting to 10,000 were paid by the company. No part of the amount was recovered from Mr. Vignesh.
- viii) An ambassador car which was purchased by the company on 16-7-2019 for 2,50,000 was sold to the assessee on 14-7-2023 for 80,000.

Other income received by the assessee during the previous year 2023-24:

Sr.no	Particulars	Rs
a.	Interest on fixed deposit with a company	5,000
b.	Interest on fixed deposit with a bank	3,000
c.	Interest on bank fixed deposits of a minor married daughter	3,000

Contribution to LIC towards premium - 1,00,000 Deposit in PPF account made during the year - 40,000

Compute taxable income and tax liability of Mr. Vignesh for A.Y. 24-25.  
Also assume that assessee has not opted for section 115BAC

Sr.no	Particulars	Rs
a.	Interest on fixed deposit with a company	5,000
b.	Interest on fixed deposit with a bank	3,000
c.	Interest on bank fixed deposits of a minor married daughter	3,000

## 2. Income under the head Salaries

- 6) From the following details find out the salary chargeable to tax for the AY 2024 -25. Assuming he has not opted for the provisions of section 115BAC-

*X is a regular employee of Rama & Co., Gurgaon. He was appointed on January 1, 2023 in scale of Rs.20,000-Rs.1,000-Rs.30,000. He is paid 10% as dearness allowance and bonus equivalent to one month's pay. He contributes 15% (of pay and dearness allowance) towards recognized provident fund and the company contributes the same amount.*

*He is provided a free housing facility which has been taken on rent by the company at Rs.10,000 per month. He is also provided with following facilities: -*

- a) Facility of laptop costing Rs.50,000.
- b) Company reimbursed the medical treatment bill of his brother of Rs.25,000, who is dependent on him.
- c) The monthly salary of Rs.1,000 of a house keeper is reimbursed by the company.
- d) A gift voucher of Rs.10,000 on the occasion of his marriage anniversary.
- e) Conveyance allowance of Rs.1,000 per month is given by the company towards actual reimbursement of conveyance spent on official duty.
- f) He is provided personal accident policy for which premium of Rs.5,000 is paid by the company.
- g) He is getting a telephone allowance @ Rs.500 per month.

- 7) Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31-03-2024:

*i) Basic salary up to 31-10-2023 is 50,000 p.m. Basic salary from 01-11-2023 is 60,000 p.m.*

*Note: Salary is due and paid on the last day of every month. ii) Dearness allowance @ 40% of basic salary.*

*iii) Bonus equal to one-month salary. Paid in October 2023 on basic salary plus dearness allowance applicable for that month.*

## 2. Income under the head Salaries

- iv) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.
  - v) Professional tax paid 2,500 of which 2,000 was paid by the employer.
  - vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop 45,000 and computer 35,000 were acquired by the company on 01-12-2023.
  - vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 liters) provided to the employee from 01-11-2023 meant for both official and personal use. Repair and running expenses of Rs. 45,000 from 01-11-2023 to 31-03-2024, were fully met by the employer. The motor car was self-driven by the employee.
  - viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer 30,000 for adults and 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.
- Compute the salary income chargeable to tax in the hands of Mr. Balaji for the A.Y.

2024-25 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC (1A). (Module question Pg. 3-121 (4)) [ANSWER: - Taxable Salary: - 9,67,500] (HW)

8) (Question No. 35 in the video) Mr. X is appointed as a CFO of ABC Ltd in Mumbai from 1-9-2020. 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 1-4-2021, 31-3-2022 and 31-3-2023 is 50,35,000 and 71,46,700 and 94,57,700 respectively. Compute the perquisite value chargeable to tax in the hands of the Mr. X u/s 17(2)(vii) and 17(2)(viii) for the A.Y. 2022-23 and A.Y. 2023-24 (Module Question)

9) Mr. Sonu received arrears of salary of 1,24,000 in PY 23-24. His other income for that year is 8,42,000. This arrear relates to the PY 13-14 wherein the assessed income was Rs. 5,12,600.

Tax slabs for 13-14 were as follows: Upto 1,60,000 - Nil

1,60,001 to 5,00,000 - 10%

5,00,001 to 8,00,000 - 20%

Above 8,00,000 - 30%

Education cess shall be 3%.



### *Budget Quotes (1st February 2023)*

*The limit of ` 3 Lakh for tax exemption on leave encashment on retirement of non-government salaried employees was last fixed in the year 2002, when the highest basic pay in the government was ` 30,000/- pm. In line with the increase in government salaries, I am proposing to increase this limit to ` 25 Lakh.*

*- Nirmala Sitharaman*

**Contents of Chapter (Section 22 to 27)**

C1--Basic Concept
C2--Calculation of Gross Annual Value
C3--Municipal taxes
C4--Deduction u/s 24
C5--Other points
C6--Exceptions- when Income will not be taxed under income from HP
C7--Cases when GAV of house property is NIL
C8--Loss from House property
C9--Arrears of rent/unrealized rent: [Section 25A] (Wef A.Y. 2017-18)
C10--Deemed Owner [Section 27]
C11--Property owned by co-owner [Section 26]
C12--Composite Rent
C13--Conditions of Rule 4

**Concept 1: Basic Concept**

1.1) Income from House Property is chargeable to tax when the following conditions are satisfied:

- There should be a **House Property**. The property should consist of building and lands appurtenant there to.
- Assessee should be the **owner** of the House property. (Can be legal / deemed owner - C10)
- Assessee should not use the House Property for his **own business** or profession.
- Annual value of house property will be charged under the head "Income from house property", where it is held by the assessee is stock-in-trade of a business also. However, the annual value of house of property being held as stock in trade would be treated as NIL for a period of two years (wef AY 20-21) 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.

**Notes:**

1) House property means Building and building should be a permanent structure. It cannot be a temporary structure like exhibitions, tents etc.

2) Hence rent received from letting out a vacant plot of land \_\_\_\_\_ (can/cannot) be taxed under Income from House property but it will be taxed \_\_\_\_\_

## 3. Income from House Property

3) Rental Income from Subletting cannot be taxed under \_\_\_\_\_. It will be taxed under \_\_\_\_\_ or \_\_\_\_\_.

4) Property situated in foreign country shall be taxed similar to the property situated in India. However, the taxability will depend upon the residential status of the assessee.

5) **Case law reference:** The income earned by an assessee engaged in the business of letting out of properties or rent would be taxable as business income. (Supreme Court ruling in *Rayala Corporation (P) Ltd. v. Asstt. CIT*)

Eg: Builders constructs & gives mall on rent. Such rental income shall be taxable under \_\_\_\_\_.

6) House property means residential or commercial property e.g. Flat, office, showroom, godown etc.

### 1.2) Different types of properties:


A person may use the house property for his residential purpose or may give the property on rent. Factually, assessee can have more than one house property used for his residence. However as per Income tax, the assessee can treat only one house property, of his choice as Self Occupied and the other property that is used for residential purpose would be deemed to be let out. Hence there are following types of house properties. House property means resident property, growth, office, etc.

1) Self Occupied

2) Let-out

3) Deemed to be let-out.

### 1.3) As per section 22: Basis of charge is Gross Annual Value

GAV is the basis of charge for Income from HP. GAV of SO Property will be \_\_\_\_\_ However as per Income Tax assessee can treat two houses as self occupied.  wef AY 20-21 there will be no tax on notional rent of second self occupied house. However the deduction u/s 24 in respect of two self occupied properties will be limited to Rs. 2,00,000/ 30,000 as the case may be.

### 1.4) Computation of House Property:

Particulars	Self Occupied	Let out	Deemed to be let
Gross annual value [GAV]	NIL	All steps	Step 1
Less:- Municipal Taxes	NIL	XXX	XXX
Net annual value[NAV]	NIL	XXX	XXX
Less:- deduction u/s 24			
1. NIL	30 % of NAV	30 % of NAV	1. Standard deduction
2. XXX	XXX	XXX	2. interest on
Income from house property	(XXX)	XXX	XXX

## 3. Income from House Property

### 1.5) Understanding Self occupied property

Particulars	Self Occupied

#### Notes:

**i) Interest on borrowed capital is allowed as deduction if loan is taken for:**

- a) Purchase
- b) Construction
- c) Repairs
- d) Reconstruction
- e) Renovation of house property.

**ii) There is a maximum ceiling for interest on borrowed capital in case of only Self Occupied**

property. For self occupied property there is maximum ceiling for interest on borrowed capital of Rs.2,00,000, if all the following conditions are satisfied

- a) Loan is taken for purchase/ construction of house property.
- b) loan is taken on or after 1st April 1999.
- c) In case of construction, the construction should be completed within 5 years from the date of taking loan. (The limit has been increased from 3 to 5 years w.e.f. A.Y.17-18)

**Note:** The deduction u/s 24a in respect of two house will be limited to 2,00,000

**iii) If any of above condition are not satisfied then ceiling is Rs.30,000/-**

**Note:-** WEF AY 2020-21 the limit of 30,000/2,00,000 will apply to the total amount of deduction in case of 2 self occupied houses.

### 3. Income from House Property

#### 1-6) Understanding LO and DLO

Particulars	Let out(LO)	Deemed to be let out (DLO)

Notes:

i) Interest on borrowed capital is allowed as deduction if loan is taken for:

- a) Purchase b) Construction
- c) Repairs d) Reconstruction
- e) Renovation of house property.

ii) Maximum ceiling for interest is not applicable to let out & deemed to be let-out.

#### Concept 2: CALCULATION OF GROSS ANNUAL VALUE:

Step 1.

Municipal valuation or fair rent whichever is higher, subject to standard rent. Step 1 is also called as **Expected rent (ER)**

Step 1 =

No	MV	FR	Std Rent	ER
1)	1,10,000	1,20,000	1,30,000	
2)	1,10,000	1,05,000	1,15,000	
3)	1,10,000	1,20,000	1,15,000	

Step 2.

Annual Rent Received or Receivable	XXX
Less: Unrealized rent of current year	XXX
Less: Loss due to vacancy	XXX
GAV As per step 2 (Actual Rent)	XXX

Unrealized rent is allowed to be deducted if certain conditions are satisfied (Refer concept 13)

### 3. Income from House Property

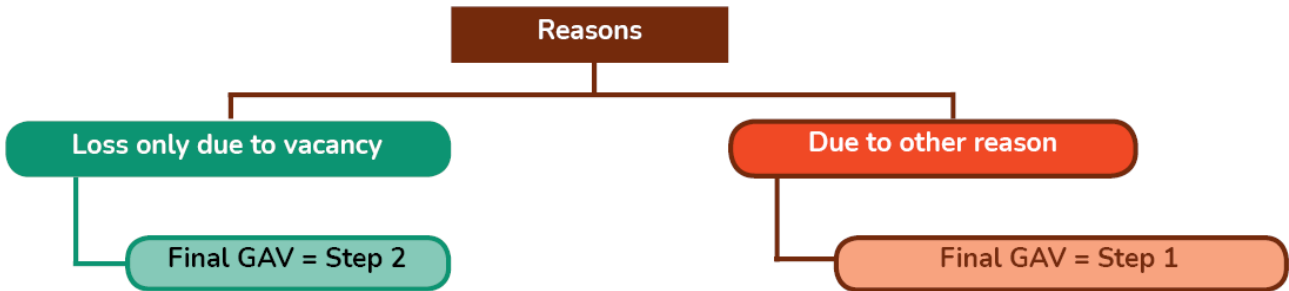
The next Step i.e. Step 3 will be applicable only if

- 1)
- 2)

If Step 3 is not applicable then Final GAV =

**Step3.**

If Step 3 is applicable then find out the reasons. Why Step 2 is less than Step 1?



**Summary of GAV**

**Step 1 :**

ER = MV or FR ↑  
Subject to std rent

**Step 2 :**

Actual Rent	
Particular	xxx
Annual Rent	xxx
(-) Unrealised Rent of current year	(xx)
(-) Loss due to V	(xx)
<b>ACTUAL RENT</b>	<b>XXX</b>

**Step 3 :**

**Applicable**

If 1.  $S2 < S1$  & ↑  
2. Loss due to V ✓

Reason why  $S2 < S1$

loss due to V

Final GAV = S2

Others

Final GAV = S1

**Not - Applicable**

Final GAV = S1 or S2 ↑

### Concept 3: Municipal Taxes

#### 3.1) Municipal Tax are levied by local authority:

Municipal Taxes are allowed only on **payment basis** and only when **paid by the owner**. In case The property is situated in foreign country, the taxes levied by local authority of foreign country are also deductible.

### Concept 4: Deduction u/s 24

#### 4.1) Standard Deduction u/s 24(a)

- 1) It is equal to **30%** of NAV
- 2) No standard deduction for SO property.

#### 4.2) Interest on borrowed capital u/s 24(b)

Interest on borrowed capital studied above in detail.

- a) Interest on new loan taken to repay the original loan is allowable as a deduction. However, interest on unpaid interest i.e. cumulative interest is not deductible.
- b) **Interest payable out of India on which TDS is not paid or deducted is not deductible.**
- c) **Pre - construction Interest:**



#### Note :

1. Interest on loan is allowed on accrual basis
2. Interest on fresh loan taken to repay old loan is allowable u/s 24b.
3. Interest on unpaid interest is not allowable u/s 24b.

### Concept 5: Other points:

**5.1)** HP- A part is let out & part of H.P. is self occupied then income will be computed separately For let out and S.O. portion

**5.2)** HP-Let out for period and self occupied for a period, then treat is a L.O.

**5.3)** In case of resident and ordinary resident, their global income is taxed in India.

Hence, Income earned from house properties situated in foreign countries is taxable in India under the head "Income from House property".

**5.4)** Income derived from any farm building or land appurtenant thereto from agricultural Purposes shall be treated as agricultural income. (we will learn it in the chapter of agricultural income)

**5.5)** Under Income from HP sometimes notional income as taxed instead of real income. E.g. unsold inventory lying vacant in case of builders, and sometimes ER is treated as GAV.

### Concept 6: Exceptions- When Income will not be taxed under Income from HP

Annual value of House Property shall always be charged to tax under income from House Property.

This rule has following two exceptions.

- a) In case of composite rent, the letting out activity is inseparable then it will be charged to tax under the head PGBP or income from Other Sources.
- b) If the letting out property is incidental or subservient to the business then the income shall be charged to tax under the head Profits and gains from Business & Profession.

### Concept 7: Cases when GAV of house property is NIL.

a) Self occupied.

b) A let out property which is vacant for 12 months.

c) When a house property is not occupied due to business or employment carried out at some other place. At that other place assessee resides at in a house not owned by the assessee. No other benefit is derived from this house property.

d) GAV will be Nil (w.e.f. AY 18-19)

i) Any property is held as stock in trade

ii) It is not let out during the whole or any part of the year

iii) GAV will be NIL only for up to 2 years (wef AY 20-21) from end of FY in which Certificate of completion of property is obtained (Upto last year this concession was available only for 1 year)



## 3. Income from House Property

### Concept 8: Loss from House Property:

(We will learn it in detail in the chapter of set off and carry forward of losses.)

### Concept 9: Arrears of Rent/unrealized rent: [Section 25 A] (W.E.F. AY 2017-18)

- a) New provision has been introduced to commonly cover arrears of rent & unrealized rent recovered
- b) Both will be chargeable to tax in the year of receipt/realized.
- c) Chargeable to tax under the head income of house property irrespective of whether the assessee is or is not the owner of house property.
- d) 30% standard deduction is available from both arrears and as well as unrealized rent w.e.f. A.Y. 17-18.

### Concept 10: DEEMED OWNER: Section 27

SITUATION	DETAILS
Transfer to a spouse	<p>In case of transfer of house property by an individual to his or her spouse otherwise than for adequate consideration, the transferor is deemed to be the owner of property.</p> <p><b>Exception:</b> In case of transfer to spouse in connection with an agreement to live apart, the transferor will not be deemed to be the owner. The transferee will be the owner of the house property.</p>
Transfer to a minor child	<p>In case of transfer of house property by an individual to his or her minor child otherwise than for adequate consideration, the transferor would deemed to be owner of the house property transferred.</p> <p><b>Exception:</b> In case of transfer to minor married daughter, the transferor is not be deemed to be the owner.</p>
Holder of impartible estate	<p>The impartible estate is a property which is not legally divisible. The holder of an impartible estate shall be deemed to be the individual owner of all properties comprised in the estate.</p> <p><b>Example:</b> Raja Pratap singh is one of the ex-rulers of a former princely State. He has divided all his properties amongst his three sons. However, he could not transfer a building (i.e. a temple) which is given to his eldest son (all the three brothers have the right to enjoy the property. The eldest brother holds the property as trustee on behalf of his younger brothers). So now, the eldest son is deemed owner of that building (i.e. a temple)</p>
Member of Co-operative society etc	<p>A member of Co-Operative society, company or other association of persons to whom a building or part thereof is allotted or leased under a House Building Scheme of a society/company/association, shall be deemed to be owner of that</p>

### 3. Income from House Property

	building or part thereof allotted to him although the co-operative society/ company/ association is the legal owner of that building.
<b>Person in possession of a Property</b>	<p>A person who is allowed to take or retain the possession of any building or part thereof in part performance of a contract of the nature referred to in section 53A of the Transfer of Property Act shall be the deemed owner of that house property. This would include cases where the-</p> <ul style="list-style-type: none"> <li>a. Possession of property has been handed over to the buyer</li> <li>b. Sale consideration has been paid or promised to be paid to the seller by the buyer</li> <li>c. Sale deed has not been executed in favour of the buyer, although certain other documents like power of attorney agreement to sell/will etc. have been executed</li> </ul> <p>In the above case, the buyer would be deemed to be the owner of the property although it is not registered in his name.</p>
<b>Person having right in property for a period not less than 12 yrs</b>	<p>A person who acquires any rights by way of lease for not less than 12 years, shall be deemed to be the owner of that building or part thereof. Exception: Any rights (of renewal given to the tenant) by way of lease from month to month or for a period not exceeding one year.</p>

#### Concept 11: Property owned by co-owner [Section 26]

a) If a house property is **owned by two or more person such persons** are known as co-owners.

This is applicable if following conditions are satisfied.

1) House property is owned by two or more persons.

2) Their **respective shares are definite** and ascertainable.

b) If above conditions are satisfied then share of each co-owner in the income of the property

shall be included in total income of each co-owner shall not be assessed as an 'AOPs'

c) Concessional tax treatment in respect of self-occupied property is applicable to each co-owner. Share of income from house property is taxed as each co-owners individual income.

### 3. Income from House Property

#### Concept 12: Composite rent:

##### a) What is Composite Rent?

The owner of a property may sometimes receive rent in respect of building as well as other assets like say, furniture, plant and machinery or for different services provided in the building, for e.g. lifts, security, power backup, maintenance, gardening etc. The amount so received is known as composite rent.

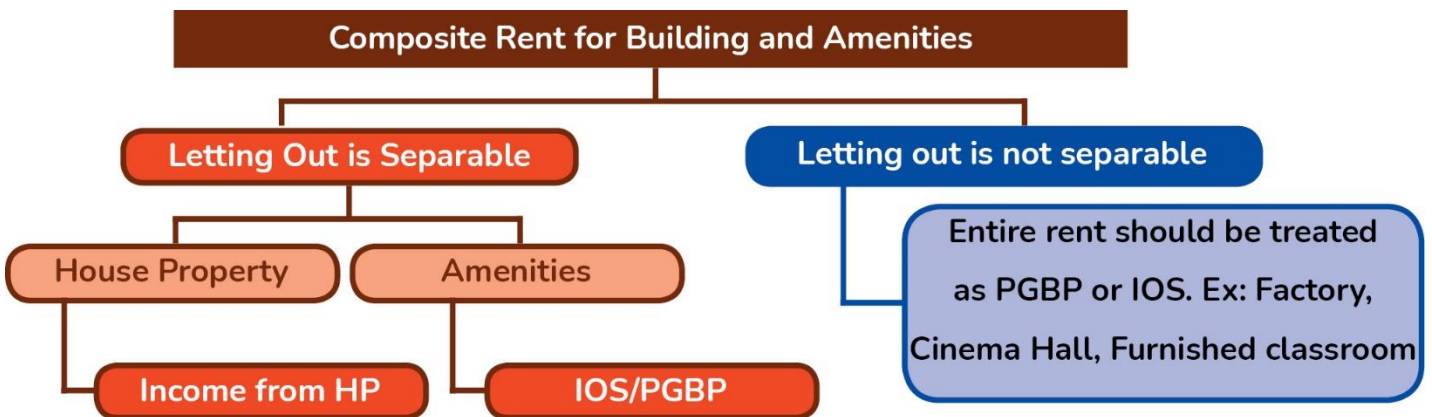
##### b) Tax Treatment

Composite rent means

Rent for the Building



Rent for facilities like lift, furniture, and other assets



#### Concept 13: Conditions of Rule 4

If the following conditions of Rule 4 are satisfied then unrealized rent will be allowed as a deduction while calculating step 2

- Tenancy is a bonafide.
- The defaulting tenant has vacated the property
- He does not occupy any other property of the assessee.
- Legal action has been initiated or assessee can convince the AO that taking legal action is of no use.

### 3. Income from House Property

#### KYC - Know Your Concepts

1. Loan taken on 15<sup>th</sup> June 2018 for purchase of House Property. Interest on the Loan for the year is Rs. 2,18,000
- a. House Property is Self-Occupied then allowable Interest is=
  - b. House Property is Let Out then allowable Interest is=
  - c. House Property is Deemed Let Out then allowable Interest is=
  - d. If loan is for repairs and house property is self-occupied, then allowable Interest =
  - e. If loan is taken on 15<sup>th</sup> June 1998 and house property is self-occupied then allowable Interest=

2. X recovered unrealized rent of PY 17-18 of Rs. 80,000 on 21<sup>st</sup> May 2023. X incurred expenses of Rs. 12,000 on recovery. The realized rent income of Rs. taxable under the head \_\_\_\_\_ in AY \_\_\_\_\_

3. Arrears of rent receivable from ABC Ltd of Rs. 18,000 relating to last year received in December 2023. Income taxable Rs. \_\_\_\_\_ under head \_\_\_\_\_ in AY \_\_\_\_\_

4. If municipal taxes paid by tenant, then whether it will be allowable or not.

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5. GAV of SO property=

6. GAV of DLO property=

7. GAV of LO property=

### 3. Income from House Property

#### Questions for Practice

1. Find out the gross annual value in the case of the following properties for the assessment year 2024-25 (there is no unrealized rent)

(Rs. In Thousand)

Particulars	X	Y	Z	A	B	C	D
Municipal value (per annum)	60	61	60	80	80	140	140
Fair rent (per annum)	65	66	64.5	78	78	150	150
Standard rent under the rent control act (per annum)	59.5	59	63	85	76	120	120
Annual rent	72	57	72	72	NA	96	144
Property remains vacant (in number of months)	1	1.5	5	3	12	10	10
Unrealized rent	0	0	0	0	0	0	0
Loss due to vacancy	6	7.125	30	18	--	80	120

Solution:

Particulars	X	Y	Z	A	B	C	D

### 3. Income from House Property

2. Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the P.Y. 2023-24 are as under: (Module question)

Particulars	House I	House II	House III
Municipal valuation p.a.	Rs. 3,00,000	Rs. 3,60,000	Rs. 3,30,000
Fair rent p.a.	Rs. 3,75,000	Rs. 2,75,000	Rs. 3,80,000
Standard rent p.a.	Rs. 3,50,000	Rs. 3,70,000	Rs. 3,75,000
Date of completion /purchase	31.3.2000	31.3.2002	01.04.2016
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	55,000	-
Interest for current year on money borrowed in April 2016 for purchase of property			1,75,000

Compute Ganesh's income from house property for A. Y.2024-25 and suggest which houses should be opted by Ganesh to be assessed as self -occupied so that his tax liability is minimum (Module Question3.159 illustration 8)

3. Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is Rs.5,00,000 fair rent is Rs.4,20,000 and standard rent is Rs.4.80,000. The property was let-out for Rs.50,000 p.m. up to December 2023. Thereafter, the tenant vacated the property and Smt. Rajalakshmi used the house for self-occupation. Rent for the month of November and December 2023 could not be realized in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @ 12% during the year. She had paid interest of Rs.25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the A.Y.2024-25. (Module question3.157 illustration 7) (HW)

4. Prem owns a house in Madras. During the previous year 2023-24,  $\frac{2}{3}$ <sup>rd</sup> portion of the house was self-occupied and  $\frac{1}{3}$ <sup>rd</sup> portion was let out for residential purposes at a rent of Rs.8,000 p.m. Municipal value of the property is Rs.3,00,000 p.a. fair rent is Rs.2,70,000 p.a. and standard rent is Rs.330000. He paid municipal

### 3. Income from House Property

taxes @ 10% of municipal value during the year. A loan of Rs.25,00,000 was taken by him during the year 2020 for acquiring the property. Interest on loan paid during the previous year 2023-24 was Rs.1,20,000. Compute Prem's income from house property for the A. Y. 2024-25.(Module question3.162 illustration 9)(HW)

5. Mr. A and B constructed their house on a piece of land purchased by them at New Delhi. The buildup area of each house was 1,000 sq. ft. Ground Floor and an equal area in the first floor. A started construction on 1.4.2022 and completed on 31.03.2023. B started the construction on 01.04.2022 and completed the construction on 30.06.2023. A occupied the entire house on 01.04.2023. B occupied the Ground Floor on 01.07.2023 and let out the first floor for a rent of Rs.15,000/- per month. However, the tenant vacated the house on 31.12.2023 and B occupied the entire house during the period 01.01.2024 to 31.03.2024 Following are the other information:

Fair rental value of each unit (Ground floor/ first	Rs.100,000
Municipal value of each unit (Ground floor / first	Rs.72,000
Municipal taxes paid by A	Rs.8,000
Municipal taxes paid by B	Rs.8,000
Repairs & Maintenance charges paid by A:	Rs.28,000
Repairs & Maintenance charges paid by B:	Rs.30,000

Cadbury  
Question.

A has availed a housing loan of Rs.20 lakhs @ 12% p.a. on 1.04.2022. B has availed a housing loan of Rs.12 lakhs @ 10% p.a. on 1.07.2022 No repayment was made by either of them till 31.03.2023. Compute income from house property for A and B for the previous year 2023-24 (Nov. 03)/MTP for May 2023) (HW)

6. Mrs. Rohini Ravi, a citizen of the U.S.A., is resident and ordinary resident in India during the financial year 2023-24. She owns a house property at los angels, U.S.A., which is used as her residence. The annual value of the house is \$ 20,000. Value of one USD (\$) may be taken as Rs.75 She took ownership and possession of a flat in Chennai on 1.07.2023, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.03.2024. The municipal valuation is Rs. 3,84,000 p.a and the fair rent is Rs. 4,20,000 p.a. she paid the following to corporation of Chennai; property tax Rs. 16200 and sewerage tax 1800. She had taken a loan from Standard Chartered Bank in June 2021 for purchasing this flat Interest on loan was as under:

### 3. Income from House Property

Particulars	Rs.
Period prior to 1.4.2023	49,200
1.4.2023 to 30.6.2023	50,800
1.7.2023 to 31.3.2024	1,31,300

She had a house property in Bangalore, which was sold in March, 2020. In respect of this house, she received arrears of rent of Rs. 60,000 in March 2024. This amount has not been charged to tax earlier. Compute the income chargeable from house property of Mrs. Rohini Ravi for the A.Y. 2024-25 if she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

Would your answer change if she pays tax under the default tax regime under section 115BAC? (modulequestion3.176)

7. Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2015-2016. The property consists of eight identical units and is situated at Cochin.

During the financial year 2023-24, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of Rs. 12,000 per month per unit. The municipal value of the house property is Rs. 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

Particulars	Rs.
Repairs	40,000
Insurance premium (paid)	15,000
Interest payable on loan taken for construction of house	3,00,000

One of the let-out units remained vacant for four months during the year.

Arun could not occupy his unit for six months as he was transferred to Chennai. He does not own any other house.

The other income of Mr. Arun and Mr. Bimal are Rs. 2,90,000 and Rs. 1,80,000, respectively, for the financial year 2023-24

Compute the income under the head 'Income from house property' and the total income of two brothers for the A.Y. 2024-25. If they pay tax under the default tax regime under section 115BAC.



### 3. Income from House Property

Also, show the computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

(Module question 3-177)

8. Mr. X, (36 years) has occupied three houses for his residential purposes, Compute income from House property from the following information:

Particulars	House I	House II	House III
Municipal value (a)	400000	600000	240000
Fair rent (b)	455000	580000	248000
Standard rent (c) as per Poona Rent Control Act	333000	550000	240000
Repairs	55000	21600	17640
Interest on borrowed capital	84600	156800	54700

Municipal taxes for all the above properties has been paid @ 12 %

9. Mr. Raman is the co-owner of the property along with his brother holding equal share in the property. Municipal value : 1,60,000, Fair Rent : 1,50,000, Standard Rent as per the Rent Control Act : 1,70,000, Rent Received : 15,000 p.m. The loan for construction of this property is jointly taken and interest is charged by the bank is Rs. 25,000 out of which 21,000 has been paid. Interest on the unpaid interest is 450. To repay this loan Raman and his brother have taken a fresh loan and interest charged on this loan is 5,000. The municipal taxes of 5,100 have been paid by the tenant. Compute the income from HP in the hands of Mr. Raman for AY 24-25.

*Budget Quotes (1st February 2019) {Finance Act 2019}*

*“Currently, income tax on notional rent is payable if one has more than one self-occupied House. Considering the difficulty of the middle class having to maintain families at two locations on account of their job, children’s education, care of parents, etc. I am proposing to exempt levy of income tax on notional rent on a second self-occupied house.”*

*- Piyush Goyal*



## Contents of chapter (Section 28 to 44)

C1--Basics

C2--Allowable Expenses

C3--Disallowable Expenses

C4-- Tax Audit, Presumptive Basis and Miscellaneous Provisions

### Concept 1: Basic

#### [Sec. 28] What is the basis of charge?

Under section 28, the following income is chargeable to tax under the head "Profits and Gains of Business or Profession."

- a. Profits and gain of any **business or Profession**.
- b. Any compensation or other payment due to or received by any person related to termination or modification of terms and conditions of the:
  - i) **Management of Business**.
  - ii) **Contract relating to agency** for business activity in India.  
**Any contract relating to business-(wef AY 19-20)**
- c. Income derived by a trade, professional and similar association from the specific services performed for its members.
- d. The value of any benefit or perquisite, whether **convertible into money or not**, arising from business or the exercise of a profession.
- e. Profit on transfer of Duty Entitlement Passbook Scheme (DEPB).
- f. Profit on transfer of Duty free Replenishment Certificate.
- g. **Export incentive** available to exporters.
- h. **Any interest, salary, bonus, commission or remuneration** received by a partner from the firm.
- i. Any sum received for not carrying out any activity in relation to **any business or profession** or not to share any know-how, patent, copyright, trademark, etc.  
 (profession brought under the scope of section 28 w e f A Y 2017-18)  
*Eg: A partnership firm pays 80 lakhs to a retiring partner*
- j. Any sum received under a key man **insurance policy** including bonus;
- k. Any sum received or receivable in cash or kind, on account of any capital asset (other than land or goodwill or financial instrument) being demolished, destroyed, discarded or transferred, if the whole of the expenditure on such capital asset has been allowed as a deduction under section 35AD (Assessment 2010-11).
- l. Profits and Gains of managing agency;

Charging  
Section

## 4. Profit Gains of Business and Profession

m. Income from *Speculative transactions*.

n. Any amount received at or in connection with termination or modification of terms of any contract relating to business.

o. Fair market value of *inventory* as on the date on which it is converted a capital asset shall be treated as business income. Wef AY 19-20.

**Note:** It has been clarified that the receipts for transfer of rights to carry on any profession are taxed under capital gains will not be taxable under PGBP. (W e f A Y 2017-18)

### Meaning of business and profession

Any income arising from business or profession shall be taxable under PGBP.

Business	Profession
The term "business" has been defined in section 2(13) to "include any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture".	The term "profession" has not been defined in the Act. It means an occupation requiring some degree of learning. The term 'profession' includes vocation as well [Section 2(36)].

**Notes :** -

1. A *painter, a sculptor, an author, an auditor, a lawyer, a doctor, an architect* and even an *astrologer* are persons who can be said to be carrying on a *profession* but not business.

2. It is, however, not material whether a person is carrying on a 'business' or 'profession' or 'vocation' since for purposes of assessment, profits from all these sources are treated and taxed alike (except in case of tax audit and presumptive income provisions, where the rates and threshold limits are different for business and profession).

Business necessarily means a continuous exercise of an activity with a profit motive; nevertheless, profit from a single venture in the nature of trade may also be treated as business.

### Speculative Transaction

Sec 43(5) defines "it means a transaction in which a contract for purchase or sale of a commodity, including shares and stocks, is periodically or *ultimately settled otherwise than by the actual delivery* or transfer of the commodity or scraps".

## 4. Profit Gains of Business and Profession

Hedging contract, Forward contract, trading in derivatives and trading in commodity derivatives shall not be treated as speculative transactions.

Business Losses (will be dealt separately in the chapter of set off and carry forward of losses)

### Sec. 29 Computation of income from business:

The Profits and Gains of Business or Profession shall be computed in accordance with the provisions of section 30 to 34D. It must be noted that allowances and deductions are not exhaustively listed.

Admissibility of deduction will depend upon the method of accounting followed by the assessee.

In the following exceptional cases income from trading or business is not taxable as Business Income:

Nature of Income	Head under which it is chargeable to Tax
Dividend on shares in the case of a dealer in shares	Dividends on shares are taxable under Sec. 56(2)(i), under the head "Income from other sources", even if they are derived from shares held as stock in trade or the recipient of dividends in a dealer in shares.
Winning from lotteries, etc.	Winning from lotteries, races, etc., are taxable under the head "Income from other sources" (even if derived as a regular business activity).

### Method of accounting:

Income under PGBP or IOS shall be computed as per cash or mercantile system of accounting which is regularly followed by the assessee.

Note: Government has notified 10 Income Computation and Disclosure

Standards(ICDS). These are required to be followed by for computing income under PGBP or IOS. However ICDS shall be dealt at final level.

## 4. Profit Gains of Business and Profession

### Some Basic Concepts:

1. Business Expenditure	
2. Personal Expenditure	
3. Capital Expenditure	
4. Revenue Expenditure	
5. Revenue Income	
6. Capital Income	
7. Future / Uncertain contingent	
8. In PGBP, we follow assessee method of accounting	

## 4. Profit Gains of Business and Profession

### Concept 2: ALLOWABLE EXPENSES Section 30 to 37

Sec No.	Particulars																		
1) 30	<i>Rent, rates, taxes repairs, &amp; insurance for building used for business /profession is an allowable expenditure</i>																		
	<table border="1" style="width: 100%; border-collapse: collapse; margin: 10px auto;"> <thead> <tr style="background-color: #003366; color: white;"> <th colspan="3" style="padding: 5px;"><i>Building</i></th> </tr> <tr style="background-color: #003366; color: white;"> <th style="width: 35%;"></th> <th style="width: 30%;"><i>Owned Premises</i></th> <th style="width: 35%;"><i>Rented Premises</i></th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;"><i>Rent</i></td> <td style="padding: 5px;"><i>Not allowed Notional Exp.</i></td> <td style="padding: 5px;"><i>Allowed</i></td> </tr> <tr> <td style="padding: 5px;"><i>Rates &amp; Taxes</i></td> <td style="padding: 5px; text-align: center;"><i>P</i></td> <td style="padding: 5px; text-align: center;"><i>P</i></td> </tr> <tr> <td style="padding: 5px;"><i>Insurance</i></td> <td style="padding: 5px; text-align: center;"><i>P</i></td> <td style="padding: 5px; text-align: center;"><i>P</i></td> </tr> <tr> <td style="padding: 5px;"><i>Revenue Expenses</i></td> <td style="padding: 5px; text-align: center;"><i>P</i></td> <td style="padding: 5px; text-align: center;"><i>P</i></td> </tr> </tbody> </table>	<i>Building</i>				<i>Owned Premises</i>	<i>Rented Premises</i>	<i>Rent</i>	<i>Not allowed Notional Exp.</i>	<i>Allowed</i>	<i>Rates &amp; Taxes</i>	<i>P</i>	<i>P</i>	<i>Insurance</i>	<i>P</i>	<i>P</i>	<i>Revenue Expenses</i>	<i>P</i>	<i>P</i>
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<i>Rates &amp; Taxes</i>	<i>P</i>	<i>P</i>																	
<i>Insurance</i>	<i>P</i>	<i>P</i>																	
<i>Revenue Expenses</i>	<i>P</i>	<i>P</i>																	
	<i>Note : Capital expenses are not allowed they should be capitalised and claim depreciation.</i>																		
2) 31	<i>Repairs and Insurance of machinery, plant and furniture used for business/ profession is an allowable expenditure</i> <i>Insurance and revenue repairs are allowable expenditure</i> <i>The P/M, furniture should be used for business purpose</i>																		
3) 32	<i>Refer detailed discussion below</i>																		
4) 35	<i>Refer detailed discussion below</i>																		
5) 35AD	<i>Refer detailed discussion below</i>																		
6) 35D	<i>Refer detailed discussion below</i>																		
7) 35DDA	<p><i>Amortization of expenditure incurred under voluntary retirement scheme</i></p> <div style="text-align: center; margin: 10px 0;"> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="background-color: #330033; color: white; padding: 5px 15px; border: 1px solid black;"><b>Employer</b></div> <div style="text-align: center;"> <div style="display: flex; align-items: center; gap: 10px;"> <div style="border-bottom: 1px solid black; width: 100px;"></div> <div style="font-size: 24px;">→</div> </div> <div style="text-align: center;"> <div style="background-color: #330033; color: white; padding: 2px 10px; font-weight: bold;">VRS Compensation</div> <div style="font-size: 18px; color: #330033;">→</div> </div> </div> <div style="margin-top: 5px;"> <div style="background-color: #330033; color: white; padding: 2px 10px; font-weight: bold;">Employee</div> </div> </div> <p style="text-align: center; margin-top: 10px;">Compensation is as per VRS scheme</p> <div style="margin-top: 20px;"> <div style="background-color: #330033; color: white; padding: 5px 15px; border: 1px solid black; display: inline-block; margin-bottom: 5px;"><b>Tax Treatment</b></div> </div> <div style="margin-top: 10px;"> <div style="display: flex; justify-content: space-between; align-items: flex-start; margin-bottom: 10px;"> <div style="background-color: #330033; color: white; padding: 5px 10px; border: 1px solid black; width: 150px;">POV Employer</div> <div style="font-size: 24px; color: #330033;">→</div> <div style="width: 70%;">For employer this expenditure is allowable in 5 years</div> </div> <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="background-color: #330033; color: white; padding: 5px 10px; border: 1px solid black; width: 150px;">POV employee</div> <div style="font-size: 24px; color: #330033;">→</div> <div style="width: 70%;">Included in income of employee under salary income (Ch of salary)</div> </div> </div> </div>																		

## 4. Profit Gains of Business and Profession

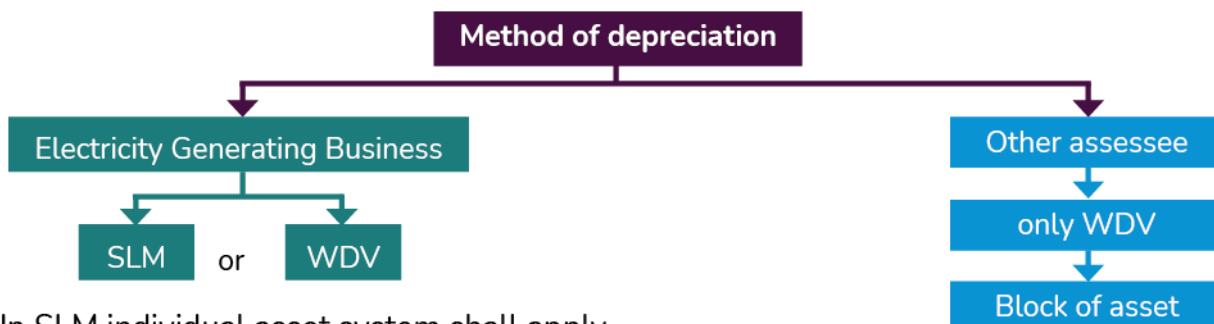
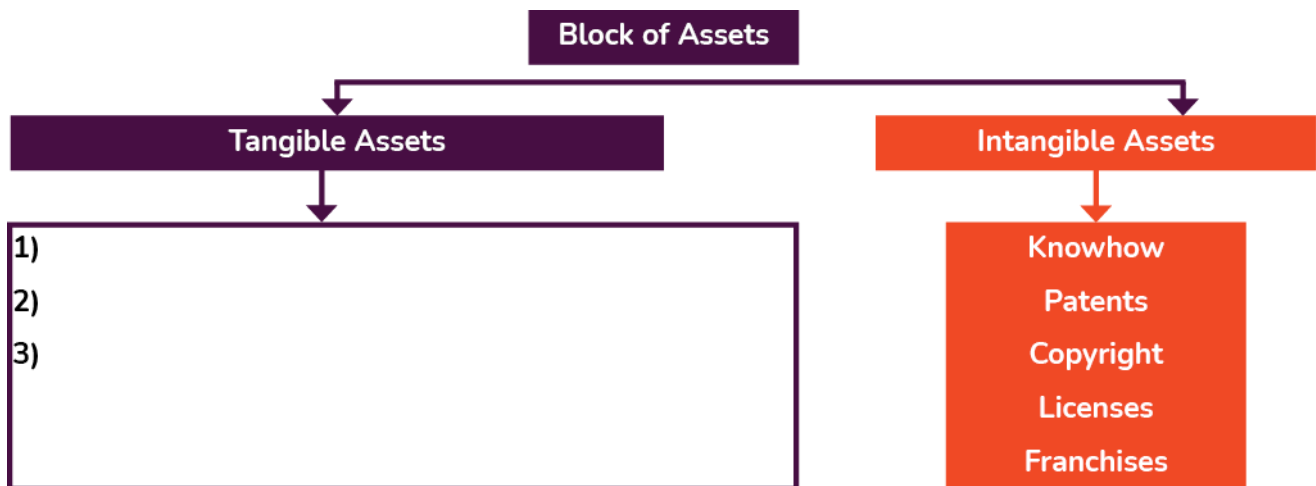
Details Discussion on 4 sections 32/35/35AD/35D

1. Section 32: Depreciation - (Refer point 3 of the table above)

1. Depreciation

a. Depreciation shall be determined on **block of assets** at the specified rates in the Income Tax Act and using the **WDV method**

b. Block of assets of same type having the same rate of depreciation. The assets are divided into following types:



In SLM individual asset system shall apply

d. The assets should be used by the assessee for the **purpose of his business/ Profession** during the previous year.

e. Asset should be **owned by the assessee**. However registered ownership is not necessary.

f. Depreciation is **limited to 50%** of normal depreciation if the asset is acquired by the assessee and is put to use for less than 180 days in the year of acquisition. (100% dep if assets is used for 180 days or more)

g. If assets are **not used exclusively for business, proportionate depreciation** will be allowed.

h. Depreciation will be allowable to the owner in respect of assets which are worked or



## 4. Profit Gains of Business and Profession

utilized by another person. E.g. lessee.

i. The assessee must own the asset wholly or partly.

Depreciation is allowable not only in respect of assets wholly owned by the assessee but also in respect of assets partly owned by him and used for the purpose of business or profession.

Note: The highest rate of depreciation shall be restricted to 40% for all the assets (whether old or new) falling in the relevant block of assets w.e.f. 01-04-2017

j. Depreciation in case of Hire Purchase

If asset is purchased under Hire Purchase depreciation is allowable.

k. Calculation of depreciation

Particulars	Block of asset

l. If any payment **in excess of 10,000** for FA is done by **cash**, bearer cheque or cross cheque (such payment shall be done only by bank, account payee cheque, account payee DD, ECS system or such other modes as may be prescribed).

NOTE: the prescribed modes include credit card, debit card, net banking, Immediate Payment Service (IMPS), Unified Payment Interface (UPI), Real Time Gross Settlement (RTGS), National Electronic Fund Transfer (NEFT), and BHIM (Bharat Interface for Money) and Aadhar Pay.

If payment in excess of \_\_\_\_\_ is done in cash then to that extent it will not be eligible for Depreciation.

Cost of machinery- 10,00,000. 1,00,000 is paid as cash advance. Remaining is paid

## 4. Profit Gains of Business and Profession

through NEFT. For Depreciation cost of plant and machinery shall be \_\_\_\_\_.

Depreciation will be calculated on \_\_\_\_\_.

**II. Concept of Additional Depreciation is available if:**

- a. Any assessee is engaged in **manufacture/production** engaged in business of **generation or distribution or transmission of power**
- b. Available on **eligible plant & machinery**.
- c. Additional depreciation = 20% of the cost of Plant & Machinery,
- d. It is available **only once in the year of purchase**. However, when plant and machinery is put to use for less than 180 days then 10% will be available in the year of purchase and balance 10% in next year
- e. If the plant & machinery is acquired and put to use less than 180 days then **Additional Depreciation = 10% of the cost of plant & machinery**.
- f. Balance 50% of additional depreciation can be claimed in the next year. (10%)
- g. **Following Plant and Machinery not eligible for Additional Depreciation**
  - i. Ship and aircraft.
  - ii. Second hand machinery.
  - iii. Plant & machinery installed in office or Guest-House.
  - iv. Transport Vehicle.
  - v. Plant & machinery for which 100 % deduction has already been claimed.
  - vi. **As per CBDT circular printing & stationery amount to manufacturing and hence eligible for additional depreciation**

### Rates of Depreciation:

	Block of assets	Depreciation (% of WDV)
Part A	<b>Tangible Assets:</b>	
I	<b>Building</b>	
Block I	Mainly used for residential purposes except hotels and boarding Houses	5%
Block II	Buildings other than those mainly used for residential purposes and Not covered by Block I or Block III	10%
Block III	Buildings acquired on or after 1st September 2002 for installing machinery and plant forming a part of water supply project or water Treatment systems and which is put to use for the purpose of business Of providing infrastructure facilities.	40%

## 4. Profit Gains of Business and Profession

Block IV	Purely temporary erections such as wooden structures	40%
II	Furniture and fittings	
Block I	(including electrical fittings)	10%
III	Plant and Machinery	
Block I	Motor cars other than those used for business running on hire 31-3-2020 acquired from 23-8-2019 to 31-3-2020 and put to use before Motor cars other than those used for business running on hire acquired Or put to use on/after 1-4-1990. (other than mentioned Above)	30%
Block II	Motor buses, lorries, taxis used for business running on hire acquired from 23-8-2019 to 31-3-2020 and put to use before 31-3-2020	45%
Block III	Moulds used in rubber and plastic goods factories.	30%
Block IV	Aeroplanes, Aeroengines	30%
Block V	Specified air pollution control equipments, water pollution control Equipments, and solid waste control equipment and solid waste recycling and resource recovery systems.	40%
Block VI	Plant and machinery used in semi conductor industry covering all integrated circuits	30%
Block VII	Life saving medical equipments	40%
Block VIII	Machinery and plant used acquired and installed on/after 1-9-2002 in Water supply project or water treatment systems and which is put to Use for providing infrastructure facilities.	40%
Block IX	Oil wells	15%
Block X	Renewable energy devices (except for mentioned below) Windmills and any specially designed running windmills installed on/before 31-3-2014 and any special devices including electric generators & pumps running on wind energy installed on/before 31-3-2014.	40% 15%
Block XI	Computers including computer softwares	40%
Block XII	Books (annual publication/other than annual publication) owned by Assesse carrying on profession	40%
Block XIII	Books owned by assessee carrying on business in running lending Libraries.	40%
Block	General Rate	15%

## 4. Profit Gains of Business and Profession

XIV		
IV	<i>Ships</i>	20%
Part B	<i>Intangible Assets :</i>	
	<i>Know-how, patents, copyrights, trademarks, licenses, franchise or any other business or commercial rights of similar nature not being goodwill of business and profession .</i>	25%

### Problems on section 32: Depreciation

1. Block of Plant & Machinery 40% - Opening WDV C1 & C2 Rs.2,45,000. A laptop is purchased For Rs.42000 on 19<sup>th</sup> April 2023 and another computer for Rs.38000 on 25<sup>th</sup> December 2023.

Computer whose WDV is Rs.1,20,000 is sold for Rs.25,000. Calculate depreciation.

2. In the above problem assume that Plant C is put to use on 18<sup>th</sup> October 2023. Calculate depreciation.

3. Block of Plant & Machinery 40% - Opening WDV C1 & C2 Rs.2,45,000. A laptop is purchased For Rs.42000 on 19<sup>th</sup> April 2023 and another computer for Rs.38000 on 25<sup>th</sup> December 2023. Computer whose WDV is Rs.1,20,000 is sold for Rs.25,000. Calculate depreciation.

4. Plant & Machinery 40% Block consisting of P1 & P2 Rs. 8,91,000. Plant P3 purchased and put to use on 17<sup>th</sup> February 2024 for Rs.3,57,000. On 09/06/2023 P1 is sold for Rs.10,20,000. Calculate depreciation.

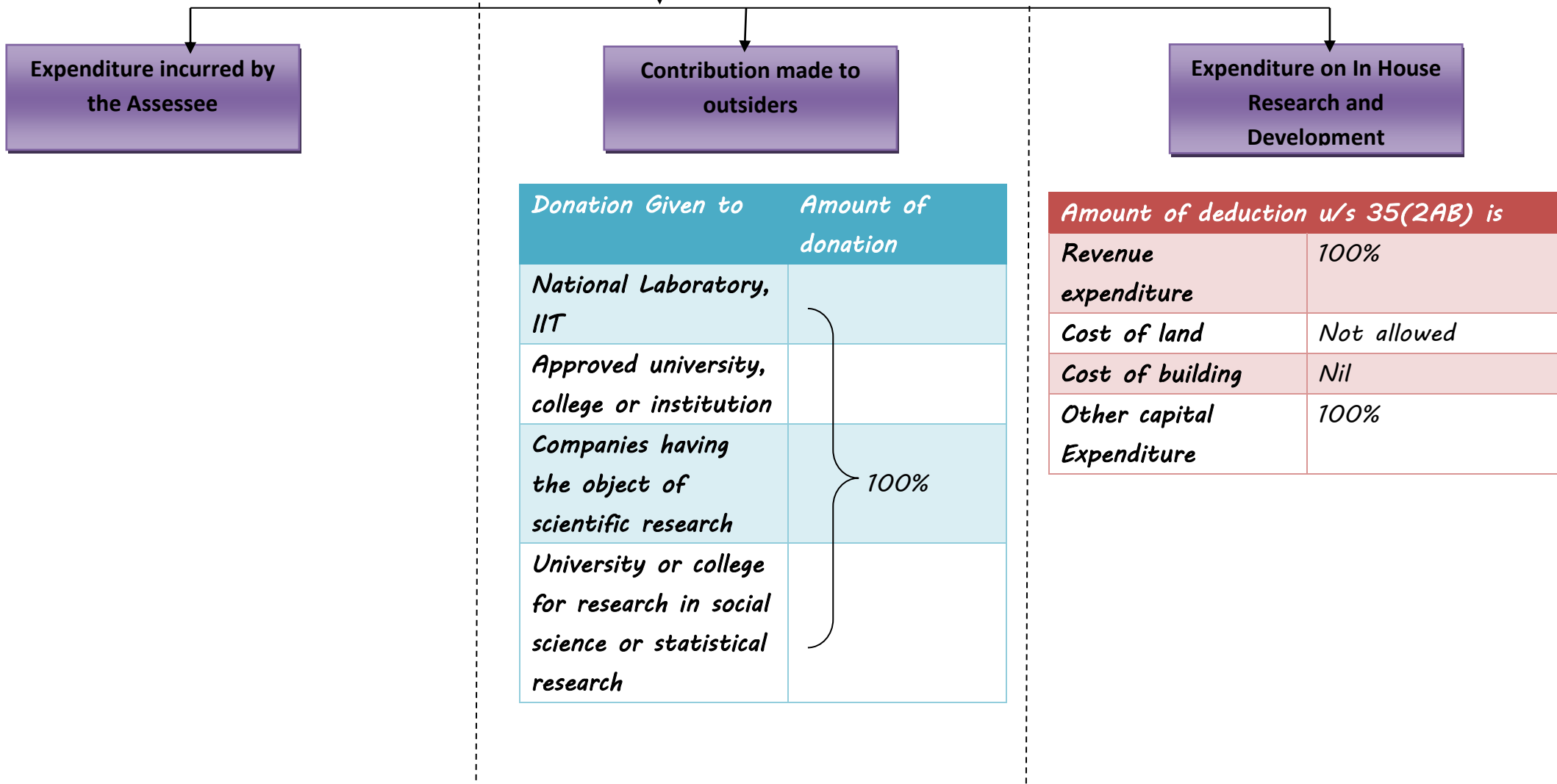
5. Plant & Machinery Block 15% consisting of Plant A & B. Rs.2, 85,000 as on 01/04/2023 Plant C is purchased for Rs.1,15,000 on 14<sup>th</sup> July 2023. In September 2023, Plant A is sold for Rs.5, 10,000. Calculate Depreciation.

6. Plant & Machinery Block 15% consisting of Plant A & B Rs.2,85,000 as on 01/04/2023. Plant C is purchased for Rs.1,15,000 in July 2023. In September 2023, all 3 machineries are sold for Rs.2,10,000. Calculate depreciation.

7. Furniture block 10% has opening WDV of Rs.2,10,000 as on 01/04/2023. Furniture worth Rs.60,000 was purchased in March 2023, however put to use on 19<sup>th</sup> January 2024. During PY 23-24 no furniture was sold. Calculate Depreciation.

## 4. Profit Gains of Business and Profession

### Exp on Scientific Research - Section 35



**3. Section 35AD: Deduction in respect of specified business** (Refer Point no.7 the table above)

Section 35 AD has been inserted (with effect from the assessment year 2010-11) to provide for **investment linked tax incentive**.

1. There are 14 specified businesses u/s 35AD. Capital expenditure incurred is allowable u/s 35AD.

2. If any capital exp. incurred before the commencement of the business it shall also be considered if it has been capitalized in the books of A/c during commencement of business.

3. Allowable expenditure u/s 35AD = 100% of Capital Expenditure (w.e.f. AY 18-19)

4. Assessee must **start a new Business** it means business should not be started by amalgamation, Merger, Re-organization.

5. Assessee must use new P/M. However assessee is allowed to use old machinery up to 20%.

6. Second hand machinery purchased from outside India will be treated as new plant & Machinery for this section.

7. If an asset is purchased u/s 35AD it must be used for the business at least 8 years and no depreciation u/s 32.

8. Certain capital expenses like **cost of land, goodwill & financial instruments** will not be Allowable expenses u/s 35AD.

9. Capital expenses in excess of 10,000 allowed by A/c payee cheque, A/c payee DD or ECS modes payment in any other mode shall not be allowable u/s 35AD.

10. **WEF AY 21-22 35AD is optional**. Finance Act 2020 has clarified that if assessee claims for 35AD in the ITR only then he shall get it. Earlier 35AD was compulsory and assessee did not have the option.

11. Once the assessee has claimed the benefit of deduction u/s 35AD for a particular year in respect of specified business, he cannot claim benefit under chapter VI-A under the heading "C- deductions in respect of certain incomes" or section 10AA for the same or any other year and vice-versa.

12. Once exp is allowable u/s 35AD then no depreciation shall be allowed.

## 4. Profit Gains of Business and Profession

No.	<i>Specified Business - 14 Businesses</i>	<i>Date of commencement on or after</i>
1.	<i>Setting up and operating a cold chain facility [see Note 1]</i>	<i>01/04/2009</i>
2.	<i>Setting up and operating a warehousing facility for storage of agriculture produce</i>	<i>01/04/2009</i>
3-A	<i>Laying &amp; operating a cross-country of petroleum pipeline for distribution. (This business should be started by an Indian Company or consortium of Indian companies)</i>	<i>01/04/2007</i>
4.	<i>Building and operating a new hotel of two-star or above in India.</i>	<i>01/04/2010</i>
5.	<i>Building and operating a new hospital, anywhere in India, with at least 100 beds for patients.</i>	<i>01/04/2010</i>
6.	<i>Developing and building a housing project under slum redevelopment or rehabilitation scheme.</i>	<i>01/04/2010</i>
7.	<i>Developing and building a housing project under affordable housing scheme.</i>	<i>01/04/2011</i>
8.	<i>Production of Fertiliser in India</i>	<i>01/04/2011</i>
9.	<i>Setting up and operating an inland container depot or a container freight station notified or approved under the Customs Act, 1962,</i>	<i>01/04/2012</i>
10.	<i>Bee keeping and production of honey and beeswax</i>	<i>01/04/2012</i>
11.	<i>Setting up and operating a warehousing facility for storage of sugar.</i>	<i>01/04/2012</i>
12.	<i>Laying and operating a slurry pipeline for the transportation of iron ore</i>	<i>01/04/2014</i>
13.	<i>Setting up and operating a semiconductor wafer fabrication manufacturing unit</i>	<i>01/04/2014</i>
14.	<i>Developing or maintaining and operating or developing, maintaining and operating a new infrastructure facility.</i>	<i>01/04/2016</i>

### **Notes-**

*Asset (on which deduction claimed u/s35AD) should be exclusive used for specified business for minimum 8 yrs. from the year of acquisition.*

*If it is used for non-specified business within 8 yrs. then following shall be taxable under PGBP.*

## 4. Profit Gains of Business and Profession

Amount of deduction claimed u/s 35AD earlier	XXX
(-) depreciation that would have been allowable if Sec. 35AD not there	(XXX)
PGBP	XXX

**4. Section 35D: Amortization of preliminary expenses** (Refer Point no-10 the table above )

Who can claim deduction?

1. Indian company
2. Resident non-corporate assessee

**Time and purpose of Preliminary expenses:**

When expenses are incurred	Why expenses are incurred
Before commencement of Business	For setting up any undertaking or business in connection with extension of an undertaking or in connection with setting up a new unit.
After commencement of business	

**Qualifying expenditure: Maximum Ceiling**

In case of a corporate assessee	In case of a non corporate assessee
5 % of cost of project OR	5% of cost of project
5% of Capital employed, whichever is more	

**Cost of project** = Actual cost of extension or cost of fixed assets which are shown in the books as on the last day of the previous year in which the business commences.

**Capital Employed** = Issued share capital + debentures + long term borrowings as on the last day of the previous year in which the business commences.

Where preliminary expenses relate to the extension of an undertaking or setting up of a new unit, capital employed means aggregate of the issued share capital, debentures and long term borrowings as on the last day of the previous year in which the extension is completed or the new unit commences business in so far as such capital, debentures or and long term borrowings have been issued in connection with the extension or setting up of the new unit.

Work should be carried on by the assessee itself or by a concern approved by the Board	Work can be carried out by assessee or by any concern (approved or not)
Expenditure in connection with: 1) Preparing of feasibility report.	1) Legal charges for drafting any agreement between the assessee and any other person relating to Setting up of the business.



## 4. Profit Gains of Business and Profession

2) Preparation of project report.	2) Legal charges for drafting Memorandum and Articles of Association if the taxpayer is a Company
3) Conducting a market survey or any Other survey	3) Registration fee of a company as per Companies Act
4) Engineering services related to the Business.	4) Expenses in connection with public issue of shares or debentures of a company, underwriting commission, brokerage and charges for drafting, typing, printing and advertising of the prospectus. 5) Any other expenditure which is Prescribed

### Amount of Deduction:

1. Allowable expenditure u/s 35D = Total preliminary expenses/5 years.
2. To claim the deduction the books should be **audited by the Chartered Accountant**.
3. The report should be furnished on/before the due date prescribed u/s 44AB i.e., 30<sup>th</sup> September.

### 9. Other Allowable expenses under section 36.

Section No.	Details
36(1)(i)	<b>Insurance premium</b> Amount of any premium paid in respect of <b>insurance</b> against risk of damage or destruction of <b>stock in trade will be allowable expenditure</b> .
36(1)(ib)	<b>Insurance premium on health of employees</b> Health Insurance Premium paid for employees in any mode other than cash is allowable exp.
36(1)(ii)	<b>Bonus or commission to employees</b> Any sum paid to an employee as bonus or commission for services rendered, provided the sum so paid is paid as bonus or commission and not as a way of profit distribution. It is subject to section 43B
36(1)(iii)	<b>Interest on Borrowed Money</b> i. Money must be borrowed for the purpose of business ii. Interest is paid or payable on such borrowings. iii. In case of capital assets deduction only interest on loan after the asset has been put to use shall be allowed. iv. Any interest on loan before asset is put to use should be

## 4. Profit Gains of Business and Profession

	<p>capitalised.</p> <p>v. Loan can be taken from Banks, Financial Institutes or friends and relatives</p> <p>vi. Interest on Loan taken for payment of income tax is not allowable</p> <p>vii. Interest on loan taken for payment of sales tax, GST, excise shall be Allowable</p> <p>viii. Interest on Proprietors own capital not allowable (Notional exp.)</p> <p>ix. Interest on Partners capital is allowable subject to another section 40 b</p>
36(1)(iiia)	<p><b>Discount on zero coupon bonds is allowed over life of bonds</b></p> <p>These bonds can <b>be issued</b> by infrastructure companies, public sector companies Or by scheduled banks.</p> <p>ii) Discount = Difference between money received and amount payable on Redemption</p> <p><b>Deduction = Prorata over the life of the bond.</b></p>
36(1)(iv) (v)	<p><b>Employer's contribution towards the following is allowable</b></p> <p>i. RPF      ii. SPF      iii. Approved superannuation fund      iv. Approved gratuity fund</p> <p>v. Any other fund as per law.</p>
36(1)(iv)(a)	<p><b>Employer's contribution towards a pension scheme referred to in Section 80CCD</b></p> <p>not exceeding 10% of salary. (Salary = Basic +DA if terms of employment so Provide</p>
36(1)(va)	<p><b>Employees contribution towards Staff Welfare Schemes:</b></p> <p>1) Employees contribution collected by employer is income u/s 2(24)</p> <p>2) Deduction is allowed if amount is credited to the employees account in the relevant fund on or before the due date under the relevant act.</p> <p>If the payment is not made before the due date under respective Act, it shall never be allowed as deduction.</p> <p>3) Employees contribution due date shall mean due date of relevant fund under any Act, rule or order.</p> <p>4) Also for removal of doubts it is clarified that provisions of section 43B will not apply to this section for determining the due date</p> <p>5) That is due date shall be the due date of the fund and not the due date of the ITR u/s 139(1). Wef FA, 2021.</p>

## 4. Profit Gains of Business and Profession

<b>36(1)(vii)</b>	<p><b>Bad Debts</b></p> <p>Bad debts will be allowable expenditure if the following conditions are satisfied</p> <p>i) There is debt and it has become bad.</p> <p>ii) The debt has been treated as the income of the assessee of the previous year.</p> <p>iii) The amount in question has been written off as irrecoverable in the accounts of the assessee for relevant previous year.</p> <p><b>Note: Bad debts</b> →</p> <p><b>Provision for bad debts</b> →</p> <p><b>RDD</b> →</p>
<b>36(1)(ix)</b>	<p><b>Family planning expenditure:</b></p> <p>i) Any bonafide expenditure incurred by a Company for the purpose of promoting family planning amongst its employees is deductible.</p> <p>ii) If however, such expenditure is of a capital nature then the same shall be allowable in equal installments over 5 years</p>
<b>36(1)(xv)</b>	<p><b>Securities Transaction Tax paid during the year is allowable exp.</b></p> <p>When a person is trading in securities then the stock exchange charges STT.</p> <p>Such STT paid is allowed as expenditure while computing business income.</p>
<b>36(1)(xvi)</b>	<p><b>Commodities Transaction Tax paid during the year is allowable expenditure.</b></p> <p>Commodities Transaction tax paid by a person while trading in commodities will be allowed as a deduction.</p>

### 10. Sec 37 (1): General Deductions

1. Sec-37 (1) is a residuary section. In order to claim deduction under this section, the following conditions should be satisfied-

- a. The expenditure should not be in the nature described under Sec-30 to 36.
- b. It should **not be** in the nature of **capital expenditure**.
- c. It **should not be** **personal expenditure** of the assessee.
- d. It **should have been** incurred during the **previous year**.
- e. It **should be** in respect of **business carried on by the assessee**.
- f. It **should have been expended** wholly and exclusively for the **purpose of such business**.

## 4. Profit Gains of Business and Profession

g. Finance Act 1998 amended Sec 37(1) retrospectively from A.Y 1962-63 to clarify that no allowance shall be made in respect of expenditure by the assessee for any purpose which is an offence or which is prohibited by law. Consequently the payment on account protection money, extortion, hafta, bribes etc. will not be allowed as business deduction. (Now FA 2022 has clarified that the expenditure may be an offence prohibited by domestic law or international law it shall not be allowed. Also providing any benefit or perquisite which is in violation of any domestic or international law is not an allowable expenditure)

<i>Some Expenses -</i>	
1. Contingent Liability	
2. CSR Expenses	
3. Advertisement in souvenir, brochure, newspaper published by political party	
4. Pharma Co. <span style="margin-left: 20px;">Freebies</span> <span style="margin-left: 20px;">Doctors</span> <div style="text-align: center; margin: 5px 0;"> <math>\xrightarrow{\text{Give gif}}</math> </div>	
Note : Such exp on freebies and gifts are prohibited by Indian Medical Council (Professional conduct, Etiquette and Ethics) Regulations.	
5. Dividend	
6. Penalty for breach of contract	
6a. Penalty for contravention of law	
7. Customary expenses (for puja, etc.)	
8. Exp for attending seminars	

**Hint for Allowable expenditure :**

## 4. Profit Gains of Business and Profession

### Concept 3: Disallowable Expenses Section 40 to 43B

#### 1. Disallowances Section 37(2B)

Any expenditure on advertisement in any souvenir, brochure, pamphlet etc. published by a political party is not allowable expenditure

#### 2. Expenses not deductible u/s 40a

##### I) Payment made to NR or outside India - 40(a)(i)

- a. TDS has not been deducted in the PY
- b. TDS not paid upto due date of filing ITR - u/s 139(1)
- c. 100% expenditure shall be disallowed.
- d. However the expenditure shall be **allowed** as a deduction in the year in which such tax is actually paid.

##### II) Payment made to R- 40 (a) (ia)

- a. TDS has not been deducted or
- b. TDS not paid within due date of filing ITR u/s 139(1)
- c. **30% of the expenditure shall be disallowed**
- d. However the expenditure of 30% shall be **allowed** as a deduction in the year in which such tax is actually paid.

##### III) Salary payable outside India or to a non resident Section 40(a)(iii)

- a. If the TDS has not been deducted or
- b. TDS has not been paid.
- c. Permanent disallowance (100%)
- d. No deduction in later year even if the tax is deposited.

##### IV) Tax on non monetary perquisite paid by the employer Section 40(a)(v)

If employer offers some Non-Monetary perquisite to the employee, then tax on such Non-Monetary perquisite is the responsibility of the employee. But instead of employee, if employer decides to pay tax on such Non-Monetary perquisite from his pocket, then that Tax is Not Allowed as a deduction because its Exempt i hand of Employee u/s 10(10CC).

##### V. Income tax paid or payable Section 40(a)(ii) (It includes Advance Tax also)

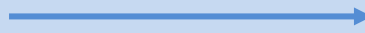
Not allowable expenditure. It is clarified that tax includes Surcharge and cess on such tax (wef FA 2022). Hence tax including surcharge and cess will be disallowable business expenditure

## 4. Profit Gains of Business and Profession

VI. State govt undertaking

Royalty fees

Exclusive to state govt



- a. Then such Royalty / fees not allowable exp for state govt undertakings.
- b. Several State Govt. Undertakings are passing on the income to the State Govt. in the form of royalties, Service fees etc. This clause intends to stop the same.

### Exceptions to point I & II

Where the payer has failed to deduct TDS shall not be treated as assessee in default provided

- a. The payee has filed the income tax return/s 139
- b. Disclosed such payments for computing his income in his return
- c. Paid the tax due on the income declared
- d. Also furnishes an accountants certificate


This relief was granted when the payee is a resident. W e f AY 20-21 this relief has also been extended to a non resident payee

## 3. Section 40 (b): Interest and remuneration to partners of PFAS

### 1) Basic Concept:

- 1)
- 2)
- 3)

i. Firm  Partners

ii.  1) Salary & Interest  
Note - However it should be within limit of 40 (b)  
2) Share of profit

iii.  1) Salary & Interest  
2) Share of profit

### 2. Remuneration to partners of PFAS is allowable expenditure

Conditions to be satisfied:

- a. Remuneration should be paid to a **working partner**.
- b. Remuneration must be **authorized by the partnership deed**.
- c. Remuneration should not pertain to period prior to partnership deed.
- d. **Remuneration should not exceed the permissible limit**.
- e. Maximum permissible limits is calculated as follows

## 4. Profit Gains of Business and Profession

Book Profit	Limit
On the first Rs.3,00,000 of the Book Profit or In case of loss.	Rs.1,50,000 or at the rate of 90% of Book Profits, Whichever is more.
On the Balance of Book Profits.	At the rate of 60% of Book Profits.

f. Book profit will be calculated as follows.

Net Profit as per Profit & Loss A/c	XXX
Add/less adjustments u/s 28 to 44	XXX
Add remuneration to partners if debited to Profit & loss A/c	XXX
Less : b/f / unabsorbed dep	(XX)
<b>Book Profit</b>	<b>XXX</b>

Note : b/f business loss will not be deducted while computing book profit

**3. Interest to Partners of PFAS is allowed subject to following conditions:-**

- a. Payment of interest should be **authorized by Partnership Deed**.
- b. Payment of interest should pertain to the period after the Partnership Deed.
- c. Rate of interest should **not exceed 12% p.a. simple interest**.
- d. Sometimes firm may pay interest to the partner in his individual capacity such interest will not get covered u/s 40b.
- e. Interest can be paid to working / non working partner.

**4. Section 40A (2): Excessive or unreasonable payment to relatives and associates**

- 1) Any Payment in relation to expenditure made to a relative, associate concern or person having substantial interest shall be disallowed to the extent it is unreasonable or excessive.
- 2) While considering whether such payment is excessive or not, assessing Officer will consider the Fair market value of such goods/services.

Assessee	Related Person
Individual	Any relative of the individual
Firm	Any partner of the firm or relative of such partner and the member of the family or association

## 4. Profit Gains of Business and Profession

HUF or AOP	Any member of the AOP or HUF or any relative of such member Director of the company or any relative of the director
Company	Any individual who has a substantial interest (20% or more voting power or beneficial entitlement to 20% of profits) in the business or profession of the assessee; or A relative of such individual.

Relative for this purpose is as defined u/s 2(41) -

*“Relative” in relation to an individual, means the husband, wife, brother or sister or any lineal ascendant or descendant of that individual.*

### 5. Section 40 A (3): Payment in excess of Rs. 10,000/- (w.e.f. AY 18-19)

- 1) Any Payment in relation to expenditure should be done only by an account payee cheque or account payee demand draft or ECS (Electronic Clearing System) or such electronic mode as may be prescribed
- 2) Payment in any other mode shall be entirely disallowed.
- 3) Allowable ECS modes are credit / Debit card, Net banking, IMPS, UPI, RTGS, NEFT, BHIM & Aadhar pay.
- 4) In case payment is made to the same party on one day and the total payment in a day Crosses Rs.10,000 then the section is attracted.
- 5) In case deduction is claimed in a previous year and the payment in excess of 10,000 is made in any subsequent previous year then the amount shall be treated as income of the year in which payment is made.
6. In case payment is made for plying, hiring, leasing goods carriages the limit of payment is increased to Rs. 35000.
7. The above disallowance shall not apply in case payment is made under such circumstances as may be prescribed
- 8) For this section to be attracted payment and invoice amount both should exceed Rs. 10,000
- 9) Exceptions - Circumstances in which 40A(3) is not applicable Rule 6DD
  - i) Payments to banks.
  - ii) Payments through banking channels like mail transfer, credit card, debit card, ECS. Etc.
  - iii) Purchase of agriculture or forest produce, the producer of animal husbandry (including livestock, meat, hides and skins) or dairy or poultry farming; or fish or fish products from the cultivator, grower or producer of such articles, produce or products.



## 4. Profit Gains of Business and Profession

iv) The payment is made for the purchase of the products manufactured or processed without the aid of power in a cottage industry, to the producer of such products.

v) Where the payment was required to be made on a day on which the banks were closed either on account of a holiday or strike.

vi) Where the payment is made in a village or town, which on the date of such payment is not served by any bank, to any person who ordinarily resides, or is carrying on any business, profession or vocation, in any such village or town.

vii) Where the payment is made to an authorized dealer or a money changer against purchase of foreign currency or travelers cheques in the normal course of his business.

viii) Payment of terminal benefits such as gratuity, retrenchment compensation, etc. not exceeding Rs.50,000.

ix) Payment made by an assessee by way of salary to his employee after deducting the income tax from salary in accordance with provisions of section 192 and when such employee: -

a. Is temporarily posted for a continuous period of 15 days or more in a place other than his normal place of duty or on a ship; b. Does not maintain any account in any bank at such place or ship.

x) Payments made to government are covered under exception.

### 6. Section: 40 A (7): Provision for gratuity

No deduction is allowed in respect of a mere provision for Gratuity. Provision for contribution to approved gratuity fund is allowed. Provision for gratuity which has become due is also allowable.

*Mere provision of Gratuity* →

*Contribution to approved gratuity fund* →

### 7. Section: 40 A (9): Contribution by employers to non-statutory fund

Employer's contribution to unrecognized or unapproved provident fund, gratuity fund or superannuation fund or any fund where employer is required to contribute under any law will not be allowable expenditure.

*Employers contri to URPF  
to unapproved fund* } →

## 4. Profit Gains of Business and Profession

### 8. Section 43 B: Certain deductions to be made only on actual payment

Section 139(1) - Due date for filling ITR

Particulars	Due Date
i) All corporate assessee (whether tax audit applicable or not)	
ii) Non-corporate assessee (if tax audit/ audit under any other law - applicable)	
iii) Partner of a firm where tax audit is applicable for the firm.	
iv) Salaried person	
v) Non-corporate assessee not covered under Tax Audit	
Note : Non-corporate assessee includes AOP/BOI/AJP/Firm/LLP/Indv./HUF	

For the following 8 expenses allowability is on payment basis even if the assessee follows mercantile method of accounting.

1. **Bonus or commission** for services rendered payable to employees.

2. Any sum paid by the assessee as an employer in **lieu of earned leave** of his employee.

3. Any sum payable by the assessee as an **employer by way of contribution to any provident fund** or superannuation fund or gratuity fund or any other fund for the welfare of employees.

4. **Interest on any loan or advance from a scheduled bank**, co-operative banks or primary co. op Agricultural & Rural Development Bank, non banking financial company on actual payment basis. (Interest on co-operative bank & Primary co-operative Agricultural & Rural Development Bank added w.e.f. AY 18-19)

5. Any sum payable by the assessee as interest on any loan or borrowing from any public Financial institution or a State Financial Corporation or a State Industrial Investment Corporation.

6. **Interest on any loan or borrowing** from a deposit taking non-banking financial company or systematically important deposit taking non-banking financial company (w e f AY 20-21)

7. **Certain payment due to railways** for use of Railway assets payable to Railways. (w.e.f. A.Y. 17-18)

8. Any sum payable by way of **tax, duty, cess or fee** by whatever name called under any law for time being in force.

**Note:**

## 4. Profit Gains of Business and Profession

1. Unpaid interest is sometimes converted into loan such conversion is not treated as payment.
2. Deposit taking non banking financial company : NBFC which is accepting or holding public deposits and is registered with RBI
3. Systematically important non deposit taking NBFC : NBFC which is not accepting or holding public deposits and having total assets of less than 500 crores as per the last audited balance sheet
4. Clarification: Sometimes unpaid interest is converted into a loan or borrowing or debenture or any other instrument. By doing so liability to pay interest is deferred to a future date. Such conversion shall not amount to payment. (Refer illustration 14 module page 4.269)

**Hint:**

*New clause inserted w.e.f. FA 2023 in section 43B*

9. Sum payable to a micro or small enterprises
  - i. Lets understand section 15 of the Micro, Small and Medium Enterprises Development Act 2006.
  - ii. As per the section payment to small/ micro enterprises can be done
    - a. As per written agreement (not exceeding 45 days from acceptance of goods / services)

## 4. Profit Gains of Business and Profession

or

b. Within 15 days in case there is no agreement

iii. If payment to such enterprises is done as per section 15 then expenditure can be claimed on accrual basis.

iv. and if payment is done after time limit u/s 15 then it shall be allowed as deduction in the year in which payment is actually done.

Example: Mr. A has purchased goods of ₹ 10,000 from A & Co., a micro enterprise on 1.3.2024. As per the written agreement between them, the payment has to be made by 5.4.2024. Mr. A follows mercantile method of accounting.

i. If Mr. A paid the sum on 2.4.2024

ii. If Mr. A paid the sum on 20.4.2024

### Meaning of Micro and Small enterprise

S.No.	Meaning				
1.	In case of enterprises engaged in the manufacture or production of goods pertaining to specified industries				
	<table border="1"><thead><tr><th>Micro Enterprise</th><th>Small Enterprise</th></tr></thead><tbody><tr><td>Where the investment in plant and machinery <math>\leq</math> ₹ 25 lakhs</td><td>Where the investment in plant and machinery <math>&gt;</math> ₹ 25 lakhs <math>\leq</math> ₹ 5 crores</td></tr></tbody></table>	Micro Enterprise	Small Enterprise	Where the investment in plant and machinery $\leq$ ₹ 25 lakhs	Where the investment in plant and machinery $>$ ₹ 25 lakhs $\leq$ ₹ 5 crores
Micro Enterprise	Small Enterprise				
Where the investment in plant and machinery $\leq$ ₹ 25 lakhs	Where the investment in plant and machinery $>$ ₹ 25 lakhs $\leq$ ₹ 5 crores				

## 4. Profit Gains of Business and Profession

	<i>Note - For calculating investment in plant and machinery, the cost of pollution control, research and development, industrial safety devices and such notified items shall be excluded.</i>	
2.	<i>In case of enterprises engaged in providing or rendering services</i>	
	<i>Micro Enterprise Where the investment in equipment <math>\leq</math> ₹ 10 lakhs</i>	<i>Small Enterprise Where the investment in equipment <math>&gt;</math> ₹ 10 lakhs <math>\leq</math> ₹ 2 crores</i>

*Note : Any sum payable means a sum for which the assessee incurred liability in the previous year even though such sum might not have been payable within that year under the relevant law.*

*Hint :*

### Concept 4: Tax Audit, Presumptive Basis & miscellaneous Pensions

No.	Section	Particulars
1	41	Deemed Income
2	43A	Special provisions consequential to changes in exchange rate of currency
3	43CA	Land or Building being a stock in trade is sold
4	44AA	Maintenance of accounts by certain persons
5	44AB	Tax Audit
6		Computation of Income on Estimated Basis
6a	44AD	Business Turnover not exceeding 2 crores
6b	44ADA	Professional receipts not exceeding 50 lakhs

## 4. Profit Gains of Business and Profession

6c	44AE	Assessee in the business of plying, hiring or leasing goods carriages
7	68 to 69D	Undisclosed sources of income
8		ICDS

### 1. Deemed Income: Sec 41

**Deemed business income:**

1. Any expenditure which was earlier allowed as deduction and is recovered later on then it will be treated as business income.

Example: Customs duty recovered, bad debts recovered (earlier allowed as deduction).

2. Any capital asset bought for scientific research, deduction u/s 35 is claimed and later on the same is sold then, Business income u/s 41 = sale consideration or expenditure allowed u/s 35 whichever is lower

Example: Asset bought for 42000 for scientific research. Before or after the research the asset is sold for 30000. Therefore business income u/s 41 = \_\_\_\_\_,

If asset is sold for 45,000 then,

3. Amount withdrawn from special reserve shall be deemed to be the profit and gain from business or profession. (applicable only to banks & financial institution)

### 4. Adjustment of loss 41 (5)

a. The business or profession is discontinued.

b. Loss of such business or profession pertaining to the year in which it is discontinued could not be set-off against any other income of that year.

c. Such business is not speculative business.

d. After discontinuation of such business or profession there is deemed income under Sec. 41(1), (3), (4), or (4A).

e. loss pertaining to the year in which business or profession was discontinued is permitted to be set-off against deemed income.

**Note:** Income covered u/s 41 is called as deemed income.

It is taxable as business income even if business is not in existence.

It is taxable in the year of receipt Amount is chargeable to tax even in the hands of successor of the business.

## 4. Profit Gains of Business and Profession

### 2. Section 43A: Special provisions consequential to changes in exchange rate of currency:

Where a capital asset has been acquired from a country outside India, the addition or deduction from the actual cost of the asset on account of change in the rate of exchange in any previous year shall be allowed to be made only on actual payment by the assessee towards the cost of the asset or repayment of the loan or interest, irrespective of the method of accounting adopted by the assessee.

### 3. Section 43CA (w.e.f A.Y 14-15)

- 1) Assessee transfers an asset (other than capital asset) being **land or building or both**
- 2) It is **transferred for less than stamp duty valuation**.
- 3) Finance Act 2020, has made an amendment; that difference upto 10% between actual sale consideration and stamp duty value shall be ignored.
- 4) However if the date of agreement when consideration was fixed and date of registration are not same, then stamp valuation as on date of agreement will be considered
- 5) Point No 4 will be applicable only if consideration is received by account payee cheque/DD or ECS the date of agreement. Payment should be done by bank or such other electronic mode as may be prescribed. (wef AY 20-21)

NOTE: the prescribed modes include credit card, debit card, net banking, Immediate Payment Service (IMPS), Unified Payment Interface (UPI), Real Time Gross Settlement (RTGS), National Electronic Fund Transfer (NEFT), and BHIM (Bharat Interface for Money) and Aadhar Pay

Sale Price	Stamp Valuation	110%	Sale Consideration for Income Tax
Rs. 38,00,000	Rs. 42,00,000		
Rs. 38,00,000	Rs. 41,00,000		
Rs. 35,00,000	Rs. 39,00,000		
Rs. 35,00,000	Rs. 38,00,000		
Rs. 35,00,000	Rs. 30,00,000		

## 4. Profit Gains of Business and Profession

### 4. MAINTENANCE OF ACCOUNTS BY CERTAIN PERSONS:

#### Sec-44AA and Rule 6F

#### 1) Specified Professions -

*Legal, Medical, Engineering, Architecture, Accountancy, Technical Consultancy, Interior Decoration Or any other notified Professions (Authorized Representative, Film Artist, and Company Secretary)*

#### 2) Table explaining the Sec-44AA

Category	Person	Books of Accounts to be maintained
A	Gross Receipts in the specified Profession do not exceed Rs. 1,50,000/- in any one of the three years immediately preceding the previous year.	Such Books of Accounts and other documents to enable A.O. to compute Taxable income.
B	Gross Receipts in the specified Profession Exceeds Rs.1,50,000/- in all of the three years immediately preceding the previous year.	1. Cash Book 2. Journal 3. Ledger 4. Carbon copies of bills exceeding Rs.25/- 5. Original bills for expenditure In Excess of Rs.50/- 6. A person carrying on Medical Profession is further required to maintain daily Case Register & inventory Register
C	Persons carrying on 'non-specified profession' .If their income from Business or Profession does not exceed Rs.1,20,000/- or Total sales, Turnover, Gross receipts thereof are not in excess of Rs.10,00,000/- in any one of three years immediately preceding the previous year	No requirement to maintain any books of accounts.
	(Note: Only for Individuals & HUF the limit of Rs. 1,20,000 has been increased to Rs. 2,50,000 and or the Gross Receipts of Rs. 10 lakhs increased to Rs. 25 lakhs w.e.f. AY 18-19)	
D	Persons carrying on 'non-specified profession'. If their Income from	Such Books of Accounts and other documents to enable A.O. to



## 4. Profit Gains of Business and Profession

	Business or Profession exceeds Rs.1,20,000/- and total sales, Turnover, Gross receipts thereof in excess of Rs.10,00,000/- in any of three years immediately preceding the previous years.	Compute Taxable Income.
E	Assessee wants to claim income lower than presumed by Sec.44AD, 44ADA, 44AE	Such Books of Accounts & other documents to enable A.O. to compute Taxable Income.

*Books can be in written form / electronic from the aforesaid books of accounts and documents are required to be kept and maintained for a Period of six years.*

*Question: Vinod is a person carrying a profession as film artist. His gross receipts from profession are as under:*

*FY 2020-21 : 1,15,000*

*FY 2021-22 : 1,80,000*

*FY 2022-23 : 2,10,000*

*What is his obligation regarding maintenance of books of accounts for AY 24-25 u/s 44AA of IT Act, 1961?*

### 5. Section 44AB: Tax Audit

1) Who has to get the books of accounts audited?

a. A person carrying on business if his total sales, turnover or gross receipts in business for the previous year exceeds Rs. 10 crores (amended by FA 2021, retrospective from AY 21-22) if both the following conditions are satisfied

i) Total cash receipts during the year are less than 5% of the aggregate receipts.  
Aggregate Cash receipt = all amounts received including sales

ii) total cash payments made including cash expenditures during the year are less than 5% of all payments  
Aggregate cash payments = all payments including expenditure.

iii) For the above purposes payment or receipt other than account payee cheque or account payee DD shall be deemed to be in cash (wef FA 2021, AY 22-23)

b. However the increased threshold limit shall apply only if both the above conditions are satisfied. In case both conditions are not satisfied then the threshold limit of 1 Crore shall apply. c. A person carrying on profession if his gross receipts in profession exceed Rs. 50 lakhs

d. All assesses covered under presumptive basis but not opting for the same and if his income exceeds Basic exemption limit.

## 4. Profit Gains of Business and Profession

2) Due date to get books of accounts audited

Different Taxpayers	Due date for Returns	Specified date for Submission of Audit Report
Person carrying on business or Profession and who is required by or under any law to get his books of accounts audited. Or	October 31 <sup>st</sup> of A.Y.	September 30 of A.Y.
Profession but not Person carrying on business being person referred above	October 31 <sup>st</sup> of A.Y.	September 30 of A.Y.

3) Who has to get the books of accounts audited?

<b>Business</b>	If his total sales, turnover or gross receipts in business for the previous year exceeds Rs. 1crore/ 10 crore with 2 conditions
<b>Profession</b>	If his gross receipts in profession exceeds Rs. 50lakhs.
<b>44AE</b>	Income is claimed to be lower than the deemed profits under this section
<b>44ADA</b>	Income is claimed to be lower than the deemed profits under this section and such income exceeds the basic exemption limit
<b>44AD</b>	Income is not claimed under 44AD and such income exceeds the basic exemption limit
<b>Business</b>	If his total sales, turnover or gross receipts in business for the previous year exceeds Rs. 1crore/ 10 crore with 2 conditions
<b>Profession</b>	If his gross receipts in profession exceeds Rs. 50lakhs.
<b>44AE</b>	Income is claimed to be lower than the deemed profits under this section

4) The requirement of audit u/s 44AB does not apply to a person who declares profits and gains on Presumptive basis u/s 44AD and his total sales turnover /gross receipts does not exceed 2 Crores.

### 5. Computation of Income on Estimated Basis Sec: 44AD, 44ADA, 44AE

#### 5a. Section 44AD

1. Which assesses are covered?

- a. Resident Individuals, HUFs, partnership firm. (LLP and company not covered)
- b. Assessee has not claimed deduction u/s 10A, 10B, 10AA or under chapter VI A under the heading "C-Deductions in respect of certain incomes."
- c. Taxpayers engaged in all businesses except business of plying, leasing or hiring trucks.

## 4. Profit Gains of Business and Profession

d. The scheme is applicable to all assessee whose gross receipts from the above-mentioned business **do not exceed Rs. 2crore**. The benefit of 44AD can be allowed upto 3 Crore. Provided the aggregate cash receipts in PY is within 5% of tax to or gross receipts. For the purpose of point no. d cheques other than A/c payee cheques or DD other than A/c payee would be deemed as receipt in cash.

### 2. Consequences on Applicability:

a. Income is to **be estimated @ 8 % of the gross receipts**.

b. The limit has been reduced to **6% in respect of the amount of Total turnover or Gross Receipts** made by means of account payee cheque, draft, electronic means during the previous year and the payment is received on or before the due date of filing the Return of income. Payment should be done by bank or such other electronic mode as may be prescribed.

**NOTE:** the prescribed modes include credit card , debit card, net banking, Immediate Payment Service (IMPS), Unified Payment Interface(UPI), Real Time Gross Settlement (RTGS), National Electronic Fund Transfer (NEFT), and BHIM(Bharat Interface for Money)and Aadhar Pay.

c. A taxpayer **can voluntarily declare a higher income** in his return.

d. All deduction shall be deemed to have been already allowed.

e. Partners salary and interest on capital shall not be allowable.

3. Provisions of maintenance of books of account or compulsory audit are not applicable if assessee declares his income in accordance with Sec. 44AD.

4. This scheme is **optional**

5. If the taxpayer opts for the presumptive taxation scheme, he has **to remain in that scheme for 5 years**. Further, if he does not offer the income as per the said scheme in any of the five years, he shall not be eligible to claim the benefit under the scheme for next 5 years.

6. If point no. 5 is applicable and if NTI of assessee is more than BEL then assessee is required to maintain books of accounts and get it audited (irrespective of the TO)

7. An assessee covered u/s 44AD shall be required to **pay advance tax in one instalment** to the extent of the whole amount of such advance tax during each financial year on or before the **15<sup>th</sup> March (w e f AY 17-18)**.

8. Presumptive taxation u/s 44AD shall not apply to the following:

## 4. Profit Gains of Business and Profession

- a. Person carrying on profession as specified in sec 44AA(1).
- b. Earning Income in the nature of commission or brokerage.
- c. Carrying on agency business

### 9. Specified Professions u/s 44AA (1)

Legal, Medical, Engineering, Architecture, Accountancy, Technical Consultancy, Interior Decoration or any other notified Professions (Authorized Representative, Film Artist, and Company Secretary)

### 5.b) New section 44ADA: w.e.f. A.Y. 17-18

Applicable to-

- 1. Assessee is a resident individual or firm (not being LLP)
- 2. Assessee is a resident and engaged in profession mentioned in 44AA (1)
- 3. Specified Professions u/s 44AA (1)

Legal, Medical, Engineering, Architecture, Accountancy, Technical Consultancy, Interior Decoration or any other notified Professions (Authorized Representative, Film Artist, and Company Secretary)

4. Professional receipts does not exceed Rs. 50, 00,000 in previous year. Benefit of this section can be availed upto 75,00,000 in the total cash receipts in the PY is upto 5% of total gross receipts.

For the purpose of point No. 4 cheques other than accounts payee cheques and DD other A/c payee shall be deemed as receipt in cash.

5. Business income u/s 44ADA = 50% of total gross receipts.

6. All deduction shall be deemed to have been already allowed. (all adjustments u/s 28 to 44 are assumed to be done)

7. Provisions of maintenance of books of account or compulsory audit are not applicable if assessee declares his income in accordance with Sec. 44ADA.

8. This scheme is **optional**.

9. WDV for the succeeding year will be computed as if the assessee has claimed depreciation for each of the relevant year

10. If assessee declares lower profit and his income exceeds the Basic exemption limit then he is required to maintain books of accounts and get them audited u/s 44AB.

11. It is applicable to individual, Partnership firm and **not applicable to Limited Liability Partnership and Company**.

12. W.e.f. AY 18-19, assessee covered under section 44ADA shall be required to **pay Advance tax on or before 15<sup>th</sup> March every year**.

### 5c) Section 44AE

**Taxpayers engaged in the business of plying, leasing or hiring trucks [Sec.44AE]**

- 1) The scheme applies to a person owning not more than 10 goods carriages at any time during the previous year. For this purpose, an assessee, who is in possession of a goods carriage, whether taken on hire or on installment shall be deemed to be the owner of such goods carriage.
- 2) Goods carriages shall be divide into heavy goods vehicle and other than heavy goods Vehicle any goods carriages whose gross vehicle weight exceeds 12000 Kgs will be treated as heavy goods vehicle (Gross weight means unladen weight) [wef A.Y. 19-20]
- 3) For heavy goods vehicle income will be 1000 per ton of gross weight for every month or part of the month [wef A.Y. 19-20].
- 4) Calculation of Income: **Rs.7500/- for every Month or part of month** during which the goods carriage is owned by the assessee
- 5) Income is estimated for the period for which the vehicle is owned by the assessee, not for the period of use
- 6) All deductions shall be deemed to have been already allowed except salary and interest in case of Firm paid to the partners u/s 40 b.
- 7) Provisions of maintenance of books of accounts or compulsory audit are not applicable if assessee declares his income in accordance with Sec. 44AE.
- 8) Assessee can claim lower Income if
  - a) He maintains books of accounts u/s 44AA irrespective of the turnover.
  - b) He gets his books of accounts audited u/s 44AB irrespective of the turnover.

### 7) Undisclosed sources of income

There are many occasions when the Assessing officer detects cash credits, unexplained investments, unexplained expenditure etc, the source for which is not satisfactorily explained by the assessee to the Assessing officer. The act contains a series of provisions to provide for these contingencies

#### i) Section 68 Cash Credit

In case cash credits are found in the accounts of the assessee during any year, assessee offers no explanation as to the source or offers an explanation which is not satisfactory then AO can treat this cash credit as income of the assessee.

#### ii) Section 69: Unexplained Investment

Where in the financial year immediately preceding the assessment year the assessee has made investments which are not recorded in the books of account, if any, maintained

by him for any source of income, And the assessee offers no explanation about the nature and source of the investments or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the value of the investments may be deemed to be the income of the assessee of such financial year.

Eg: if the assessee is found to be the owner of say 300 gms of gold (market value of which is 25000 during the financial year ending 31-3-2023 but he has recorded to have spent 15,000 in acquiring it the Assessing officer can add 10,000 (ie., the difference of the market value of such gold and 15,000) as the income of the assessee if the assessee offers no satisfactory explanation thereof

### iii) Section 69A: Unexplained money etc.

Where in financial year the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and such money, bullion, jewellery or valuable article is not recorded in the books of account, if any, maintained by him for any source of income, and the assessee offers no explanation about the nature and source of acquisition of the money, bullion, jewellery or other valuable article, or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the money and the value of the bullion, jewellery or valuable article may be deemed to be the income of the assessee for such financial year.

### iv) Section 69B: Partly explained investment, money etc.

#### v) Section 69C: Unexplained expenditure

Where in financial year the assessee has incurred any expenditure and he offers no explanation about the source of such expenditure or part thereof, or the explanation, if any, offered by him is not, in the opinion of the Assessing Officer, satisfactory, the amount covered by such expenditure or part thereof, as the case may be, may be deemed to be the income of the assessee for such financial year. Such unexplained expenditure which is deemed to be the income of the assessee shall not be allowed as deduction under any head of income.

#### vi) Section 69D: Hundi borrowings

- 1) Where any amount is borrowed on Hundi
- 2) Any amount due on hundi is repaid other than through an account payee cheque drawn on a bank.
- 3) The amount so borrowed or repaid will be considered as the income of the assessee in the year which the amount was borrowed or repaid.

## 4. Profit Gains of Business and Profession

4) Where any amount has been deemed to be income, he will not be again liable to be assessed in respect of repayment of such amount.

Note: No loss can be set off against income u/s 68 to 69C. This will be learnt in the chapter of set off. This income will be taxed at a special rate of 60% plus surcharge as 25% plus 4% health and education cess as per section 115BBE. Thus effective rate would be 78%. NO BEL. No expenses allowed.

### Sec 43 Cost of fixed assets (FA) – for Depreciation

1) If any payment in excess of 10,000 for FA is done by cash, bearer cheque or cross Cheque (such payment shall be done only by bank, account payee cheque, account payee DD, ECS system or such Other electronic mode as may be prescribed)	Such amount will not be considered in cost of P/M for claiming Depreciation.
2) If inventory is converted in Capital Asset	If FMV should be treated as the cost and then depreciation can be claimed
3) A building used for personal purpose is introduced in business.	Building should introduce in the books of A/C at WDV i.e. after deducting notional Depreciation.
4) If assets other than building are introduced in Business	Introduce those assets at original cost (no notional Depreciation)
5) If assets used for scientific research is introduced in business	Record it at Zero Value
6) If subsidy is received for capital asset	Reduce the subsidy from the cost and then claim depreciation
7) If assessee sells a Capital asset at WDV and reacquires it by paying some consideration	Asset will be recorded at the WDV of previous owner or value paid for the asset whichever is Lower

Note: Concept of Balancing Charge and Terminal Charge to be studied in the Chapter of Capital Gains

## 4. Profit Gains of Business and Profession

### Know your Concepts

1. Donation for scientific Research to an approved Institute Rs 35000. Research is not related to the business of the assessee

2. Assessee carries out research relating to his business. He purchases A plant & machinery for Rs 88000. He also purchases material required for his research Rs 24500. He also purchases land for research work Rs 1 lakh

3. Assume in the above case research is not related to the business of the Assessee

4. Rate of additional depreciation

5. X Ltd carries out in house research. It is approved by the prescribed authority Rs 30000 on plant & machinery, Rs 12000 on material, Rs 1 lakh cost of land, Rs 2 lakh cost of building

6. Donation to a company registered for carrying for research Rs 25000.

7. X Ltd incurred expenses on incorporation of company Rs 40000.

8. ABC Ltd paid insurance premium on the health of the employees. Rs. 18000 in total Of which Rs. 12000 was paid in cash

9. ABC Ltd collected Rs 34000 as employee's contribution to Provident fund. Of which Rs 22000 was deposited within the due date of the fund and balance after the due date.

10. ABC Ltd contributed Rs 34000 towards employee's provident fund. The fund is recognized

11. Assume in the above case that the fund is not recognized



## 4. Profit Gains of Business and Profession

12. Mr. X has taken a loan from the Bank for business and paid Interest Rs12000.

12. Assume the above loan is for payment of income Tax

12b. Assume the above loan is for payment of Sales tax

13. Mr. Y, a businessman paid Interest of Rs 7500 on his own capital invested in business

14. Firm Star enterprises pays interest of Rs 12000 on partners' capital account

15. XYZ Ltd has taken a loan for purchase of Plant & Machinery. It paid interest of Rs. 14600 till the date the machinery was put to use

16. A businessman wrote off Rs 13000 as bad debts in the books of account. He also made a provision for bad debts Rs 5600.

17. Expenses on family planning.

18. Capital expenses on family planning

19. Securities transaction tax paid

20. Income Tax

## 4. Profit Gains of Business and Profession

21. Advance Tax

22. Expenses on acquisition of Know How Rs 100000.

23. Payment of Dividend and dividend tax

24. Penalty for evasion/contravention of any Law

25. Penalty in the ordinary course of business

26. If firms Book Profit = 560000 & Remuneration is 350000

27. If firms Book Profit = 130000 & Remuneration is 100000

28. If firms Book Profit = 220000 & Remuneration is 200000

## 4. Profit Gains of Business and Profession

29. Construction of school building in compliance with CSR activities amounting to Rs 560000. (Module question)

30. Purchase of building for setting up a warehousing facility for storage of food grains amounting to Rs 450000. (Module question)

31. Interest on loan paid to Mr. X (a resident) Rs 50000 on which tax has not been deducted. The sales for the previous year 2023-24 was Rs. 202 lakhs. Mr. X has not paid the Tax, if any on such interest.  
(Module question)

32. Commodity transaction tax paid Rs 20000 on sale of bullion. (Module question)

33. Sales tax of X ltd Rs. 50,000 was outstanding on 31/03/2024 and paid on 8<sup>th</sup> May 2024

34. Bonus to employee for the year was Rs. 60000 paid as follows:

15/07/2023	25000
14/07/2023	25000
31/12/2023	10000

Due date is 30/10 /2024.

35. Payment of Rs. 87000 for purchase of RM was done as follows:

- 30000 by A/c payee cheque.
- 25000 in cash
- 32000 by cross cheque

36. Comment on the allowability of the following claim made by the assessee:

Mr. Achal, a hotelier, claimed expenditure on replacement of linen and carpets in his hotel as revenue expenditure

37. Interest on loan paid to Mr. X (a nonresident Rs50000 on which tax has not been deducted)

38. Contribution to the account of employees as per pension scheme referred to in section 80CCD amounted to Rs. 30, 00,000. Amount above 10% of the salary of employees is Rs. 7,00,000

39. Tax on non-monetary perquisites provided to the employees, borne by the employer Rs. 4,50,000

40. Gain due to change in the rate of exchange of foreign currency Rs. 1,00,000 related to import of machinery. The machinery was acquired and put to regular use since then

## 4. Profit Gains of Business and Profession

41. For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure. (Module question)

42. Where a person follows mercantile system of accounting, an expenditure of Rs. 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of Rs. 25,000 through a cheque crossed as "& Co. Rs. 25,000 (Module question)

43. It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head "Profits and Gains from Business and Profession". (Module question)

44. The Medclaim premium paid to GIC by Mr. Lomesh for his employees, by a draft is a deductible expenditure under section 36. (Module question)

45. Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done. (Module question)

## 4. Profit Gains of Business and Profession

46. An existing assessee engaged in trading activities, can claim additional depreciation under section 32 (1)(iia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10% (module question )

47. Provision made on the basis of actuarial valuation for payment of gratuity Rs.5,00,000. However, no payment on account of gratuity was made before due date of filing return.  
(Module question)

48. Purchase of oil seeds of Rs. 50, 000 in cash from a farmer on a banking day.  
(Module question)

49. Tax on non-monetary perquisite provided to an employee Rs. 20, 000 (Module question)

50. Payment of Rs. 50, 000 by using credit card for fire insurance. (Module question)

51. Salary payment of Rs.4, 00, 000 to Mr. X outside India by a company without deduction of tax. Assuming Mr. X has not paid tax on such salary income.  
(Module question)

52. Payment made in cash Rs. 30, 000 to a transporter in a day for carriage of goods. (Module question)

53. Interest payable to a NBFC is Rs 2, 10,000. However, the same is outstanding even as on filing the income tax return.

### Questions for Practice

Q1. Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1-1-2023. The manufacturing unit was set up on 1-5-2023. He commenced his manufacturing operations on 1-6-2023. The total cost of the plant and machinery installed in the unit is Rs.120 crore. The said plant and machinery included second hand plant and machinery bought for Rs. 20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of Rs. 15 crore. Compute the amount of depreciation allowable under section 32 of the Income -tax Act, 1961 in respect of the assessment year 2024-25. Assume that all the assets were purchased by way of account payee cheque and Mr. Gamma has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). (Module question 3-226 illustration 4) (HW)

Q2. X Ltd. contributes 20% of Basic salary to the account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees.

Compute the amount of deduction allowable under section 36(1) (iva), if the basic salary of the employees aggregates to Rs. 10 lakh. Would disallowance under section 40A (9) be attracted, and if so to what extent? (Module question 3-280 illustration 13) (DEDUCTION CHAPTER)

## 4. Profit Gains of Business and Profession

Q3. XYZ Ltd submits following information for assessment year 2024-25;

### Profit and Loss Account for the year ended March 31, 2024

Particulars	Amount (Rs.)	Particulars	Amt (Rs.)
Salary to staff	262000	Gross profit	1106000
Printing and Stationery Expenses	10000	Bad debts received allowed as deduction earlier	3000
Expenses on issue of shares for setting up a new showroom at Delhi	20000	Customs duty recovered not allowed as deduction	7000
Expenses raising long term loan for setting up a new showroom at Mumbai	30000		
Interest on public deposits	10000		
Capital expenditure for promotion of family planning among employees	4000		
Legal expenses for filing Income tax appeals before Delhi high court	5500		
Reserve for losses	8000		
Reserves for payments of fines and Penalties	3000		
Reserve for bad and doubtful debts	200		
Maintenance of car	6000		
Bad debts written off	1800		
Depreciation on Plant and machinery	21000		
Depreciation on Car	3000		
Office expenses	34000		
Rent and repairs	14000		
Sundry expenses	121500		
Dividend distributed and DDT paid	102000		
Net Profit	460000		
<b>Total</b>	<b>1116000</b>	<b>Total</b>	<b>1116000</b>

Other information:

- Car is used partly for business and partly for personal purpose. In past 50% of car expenditure is allowed



## 4. Profit Gains of Business and Profession

2. Sundry expenses include payment of advertisement bill to a person who has substantial interest in the company. The payment is excessive to the extent of Rs. 800.
3. Office expenses include an expenditure of Rs. 10000, in cash.
4. Sundry expenses include an expenditure of Rs. 10,050, which is paid by a bearer cheque.
5. Depreciation on machinery as per tax provisions is Rs. 9,000.
6. On March 10, 2024 the company pays Rs. 90,000 to a national laboratory for carrying on approved scientific research programme in natural science. The payment is not recorded in the P&L Account shown above.
7. Sundry expenses include royalty payment Rs. 50,000 to a non-resident on which tax is deducted at source on March 31, 2024 and paid to the Government on April 5, 2024 [i.e. within the time limit given under section 200(1)]. Determine the taxable income and of the company for the A Y 2024-25.

Q4. X (31 years) gives following information relevant for the assessment year 2024-25: He is a lawyer maintaining books of Account on cash basis.

### Receipt and Payment A/c

Receipt	Amt (Rs.)	Payment	Amt (Rs.)
Balance B/f	21000	Purchase of type writer	7000
Fees from clients:		Car expenses	8000
Of 2022-23	1240000		
Of 2021-22	203000		
Advance received from clients	4500	Office expenses	7000
Present from clients	4000	Salary to staff	918000
Loan from a client	8000	Interest on loan	1000
		Income tax penalty	2000
		Contribution to public provident fund	130000

## 4. Profit Gains of Business and Profession

		<i>Purchase of notified bond of infrastructure company</i>	<i>72000</i>
		<i>Repayment of education loan for higher studies of son (interest component: Rs. 44000)</i>	<i>100000</i>
		<i>Balance carried forward</i>	<i>235500</i>
<b>Total</b>	<b>1480500</b>	<b>Total</b>	<b>1480500</b>

*Other information:*

- 1. 20% of car expenses are attributable towards use of car for personal purposes.*
- 2. Fees due but outstanding is Rs. 4000.*
- 3. Depreciation of car is Rs. 3000.*
- 4. Income of X from other sources is Rs. 145000.*
- 5. X purchases a computer for Rs. 80,000 on March 10, 2023, It is, however, put to use on December 3, 2023 (rate of depreciation= 40%).*

*Determine the taxable income and tax liability of X for the assessment year 2024-25.*

*Assume assessee has not opted for section 115BAC*

*Q5. A Ltd. furnishes the following particulars for the PY 2022-23: Compute the deduction allowable under the section 35 for the AY 2023-24, while computing its income under the head 'Profits and gains of business or profession'. (Module question 3.234 illustration 5)*

	Particulars	Rs.	Allowable exp u/s35
1	<i>Amount paid to notified approved Indian Institute of Science, Bangalore, for Scientific Research.</i>	<i>1,00,000</i>	
2	<i>Amount paid to IIT, Delhi for an approved scientific research programme.</i>	<i>2,50,000</i>	
3	<i>Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the Prescribed authority</i>	<i>4,00,000</i>	

## 4. Profit Gains of Business and Profession

4	<p><i>Expenditure incurred on in-house research and development facility as approved by the prescribed authority.</i></p> <p><i>A) Revenue expenditure on scientific research</i></p> <p><i>B) Capital expenditure (including cost of acquisition of land Rs.5,00,000) on scientific research.</i></p>	<p><i>3,00,000</i></p> <p><i>7,50,000</i></p>	
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**Q6.** Profit & Loss A/c of X Co., [a firm of X, Y and Z which satisfies all the conditions of section 184 and 40(b)] for the year ending March 31, 2024 is as follows:

Particular	Rs.	Particular	Rs.
Cost of goods sold	1,87,90,000	Sales	2,06,00,000
Remuneration to partners		Rent of house property (half portion)	50,000
X.	6,00,000		
Y.	9,00,000		
Z.	55,000		
Income Tax	8,000	Interest on debentures (non-trade investment)	60,000
Interest to partners @ 13.50%			
X.	40,000		
Y.	10,000		
Z.	60,000		
Municipal Tax of House Property (entire property)	5,000		
Other Expenses	2,10,000		
Net Profit	32,000		
<b>Total</b>	<b>2,07,10,000</b>	<b>Total</b>	<b>2,07,10,000</b>

1. Out of other expenses, Rs. 48,500 is not deductible u/s 36, 37(1) and 43B.

2. On January 15, 2024, the firm pays an outstanding GST liability of Rs.2,922 of the previous year 2020-20. As this amount pertains to the PY2020-21, it has not been debited to the aforesaid P&L A/c.

3. Z is not a working partner.

## 4. Profit Gains of Business and Profession

4. The firm owns a house, the ground floor is used for business purpose, the first floor is given on rent. Municipal tax is paid on May 10, 2024. Find out the net income of the firm (and tax treatment of the payment to partners in their hand) for the AY 2024-25

Q7. Mr. Praveen engaged in retails trade, reports a turnover of Rs. 2, 98, 50, 000 for the current financial year 2023-24. Amount received in cash during the P.Y. 2023-24 is Rs. 14, 00,000 and balance through prescribed electronic modes on or before 31<sup>st</sup> october 2024. His income from said business as per books of account is Rs. 15, 00,000 computed as per the provisions of chapter IV-D “profits and gains from business or profession” of the Income -tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y .2023-24 was the first year for which he declared his business income in accordance with the provision of presumptive taxation u/s 44AD

(i) Is Mr. Praveen eligible to opt presumptive determination of his income chargeable to tax for the assessment year 2024-25?

(ii) If, so determine his income from retail trade as per the applicable presumptive provision.

(iii) In case Mr. Praveen wants to declare profits as per books of account from retail trade, what are his obligations under the income-tax Act, 1961?

(iv) What is the due date for filing his return of income under both the option? (Module question 3.306 illustration 16)

### Budget Quotes - 1st February 2023

MSMEs are growth engines of our economy. Micro enterprise with turnover up to `2 crore and certain professional with turnover of up to `50 lakh can avail the benefit of presumptive taxation. I propose to provide enhanced limits of `3 crore and `75 lakh respectively, to the tax payers whose cash receipts are no more than 5 per cent. Moreover, to support MSMEs in timely receipt of payments, I propose to allow deduction for expenditure incurred on payments made to them only when payment is actually made.

- **Nirmala Sitharaman**

## 5. CAPITAL GAINS



### Contents of Chapter (Sec 45 to Sec 55)

C1 - Basics

C2 - Special Cases

C3 - Taxation of Capital Gains

C4 - Exemptions

#### Concept 1: Basics

##### 1.1) Capital asset [Section 2(14)]-

- a) property of any kind held by an assessee whether or not connected with his business/profession
- b) Any securities held by a FII which has invested in such securities as per SEBI Regulations.
- c) ULIP issued on/after 1.2.2021, to which an exemption u/s 10(10D) does not apply on a/c of- (i) premium payable exceeding 2,50,000 for any of the PY's during term of such policy or; (ii) the aggregate amount of premium exceeding 250000 in any of the PY's during the term of any such ULIPs in a case where a premium is payable by a person for more than one ULIPs issued on/after 1.2.2021. (FA 2021)

##### There are six exceptions:

1. Stock in trade is not Capital asset

2. Personal moveable effects are not Capital assets. However jewellery, shares, securities, paintings, drawings, works of art, archeological collections, sculpture, and bullion are capital assets. (Jewellery includes gold, silver, platinum or any other precious metal, precious and semi-precious stone whether or not sewn into any wearing apparel) It also means that personal immovable effects will be capital asset.

3. Agricultural land in rural area is not a capital asset. Rural area means any land situated outside the jurisdiction of Municipal Corporation or Cantonment Board. Having population of 10,000 or more also any land situated outside 2km, 6km, and 8km outside the Jurisdiction of Municipal Corporation (depending on the criteria of population) The following table will clear the understanding of the concept.

Population of Place	What is urban land	What is rural land
0 to 10,000	--	Full area is rural
10,001 to 1,00,000	Within local limits + within 2 Km from local limits	
1,00,000 to 10,00,000	Within local limits + within 6 Km from local limit	
Above 10,00,000	Within local limits + within 8 km From local limits	

4. 6 ½ % Gold bonds, National Defence Gold Bonds issued by CG

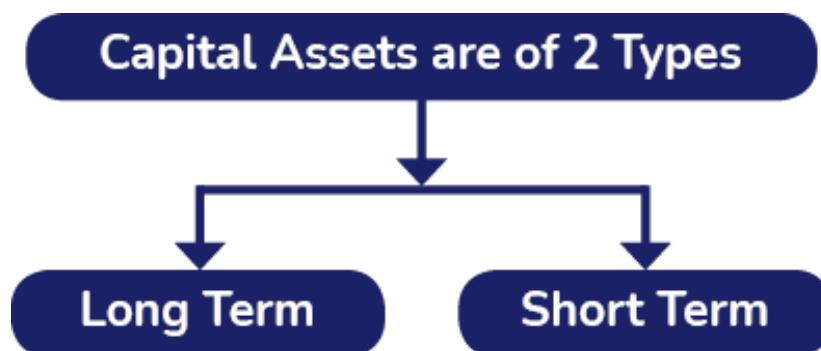
5. Special bearer bonds 1991.

6. Gold deposit bonds issued under Gold deposit scheme 1999. Deposit certificates issued under Gold Monetization Scheme, 2015 notified by the CG w.e.f A.Y 17-18

	Area	Shortest aerial distance from the local limits of a municipality or cantonment board	Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year.	Is the land situated in this area a capital asset?	Rural / Urban
1)	A	1 km	9,000		
2)	B	1.5 km	12,000		
3)	C)	2 km	11,00,000		
4)	D)	3 km	80,000		
5)	E)	4 km	3,00,000		
6)	F)	5 km	12,00,000		
7)	G)	6km	8,000		
8)	H)	7km	4,00,000		
9)	I)	8 km	10,50,000		
10)	J)	9 km	15,00,000		

### 1.2) Short Term and Long Term Capital Assets

a) Capital Assets are two types



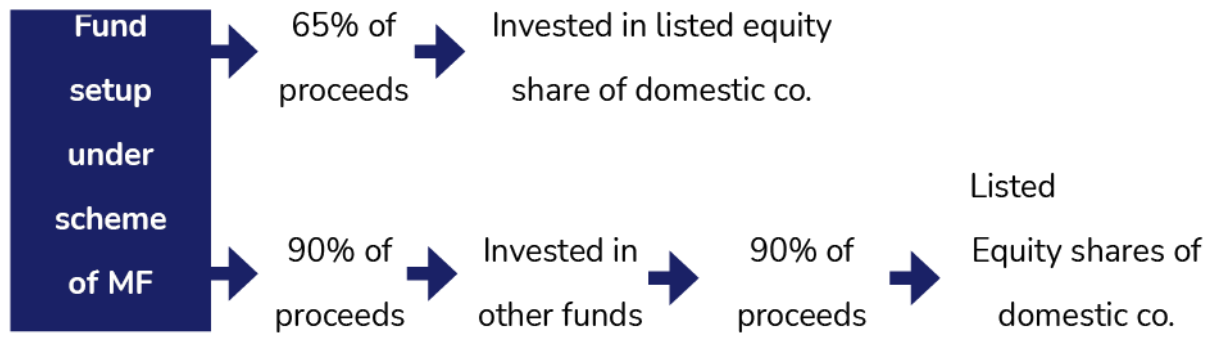
b) Period of holding of Assets (POHA)

Criteria applicable	Assets
12 months	1. Listed Equity & listed preference shares.

	<ul style="list-style-type: none"> <li>2. Zero coupon bonds</li> <li>3. Units of UTI</li> <li>4. Equity oriented Mutual Funds</li> <li>5. Listed securities. Eg: debentures</li> </ul>
24 months	<ul style="list-style-type: none"> <li>1. Unlisted equity and preference shares</li> <li>2. Immovable Property - Building or land or both - A Y 18-19</li> </ul>
36 months	<ul style="list-style-type: none"> <li>1. Unlisted securities</li> <li>2. All remaining assets</li> </ul>

c. Meaning of certain terms

### 1. Equity Oriented Mutual Fund



2. Mutual Funds are of 2 types

	POHA	Condition
1) Equity Oriented MF	12m	65% / 90% invested in equity shares
2) Specified MF	Always ST	Less than 65% invested in equity shares

### 3. Zero coupon bond: a Bond

i. Issued by any infrastructure capital company or infrastructure capital fund or a public sector company or a scheduled bank on or after 1<sup>st</sup> June, 2005

ii. In respect of which no payment and benefit is received or receivable before maturity or

iii. receivable before maturity or redemption from such issuing entity and

Which the Central Government may notify in this behalf

Note : Redemption or maturity of zero coupon bonds is treated as trf for the purpose of Capital Gains.

**e) Examples:**

Particulars	Long/short Term	Criteria applicable
1) Listed shares 15 months		
2) Unlisted shares 15 months		
3) Listed debentures 14 months		
4) Unlisted debentures 14 months		
5) Equity oriented Mutual Funds 14 months		
6) Specified Mutual Funds 14 months		
7) Unlisted shares 25 months		
8) House property 1 year 8 months		
9) Gold 2 years		
10) Agricultural land in rural area 3 years & 8 months		

**Note:** -For calculating holding period, the date on which capital asset is transferred is excluded.

**1.3) Transfer** - The definition is inclusive one. It includes the following transactions [section 2(47)]

1. Sale, exchange or relinquishment of the asset or
2. Extinguishment of any rights therein or
3. Compulsory acquisition thereof under any law
4. Conversion or treatment of capital asset by the owner into stock-in-trade of a Business carried on by him.
5. Maturity or redemption of a zero coupon bond.
6. Any transaction involving the possession of any immovable property in part performance of a contract (Section 53A of the Transfer of Property Act, 1882).
7. Any transaction which has the effect of transferring or enabling the enjoyment of any immovable property.
8. It will also include disposing or parting with an asset or interest in the asset.
9. Creating any interest in any asset directly/indirectly, absolutely/ conditionally, voluntarily/Involuntarily.

**1.4) Transactions not treated as transfer Section 47**

Section	Details
47(i)	On total or partial partition of H.U.F
47(iii)	Under a gift / an irrevocable trust or under a will
47(iv)	By a company to its subsidiary company. If Parent Company held all the



	<i>shares of Indian subsidiary company</i>
<i>47(v)</i>	<i>By a subsidiary company to its holding company. If the Indian holding company held all the shares of the subsidiary company.</i>
<i>47(vi)</i>	<i>By the amalgamating co. to the Indian amalgamated co. in a scheme of amalgamation.</i>
<i>47(vib)</i>	<i>By the demerged company to the resulting company if the resulting company is an Indian Company.</i>
<i>47(vid)</i>	<i>Transfer or issue of shares in case of a demerger to shareholders of demerged co by resulting co.</i>
<i>47(vii)</i>	<i>Being shares held in the amalgamating co. by a shareholder in a scheme of amalgamation against the allotment of shares in the Indian amalgamated co. Where the amalgamated company itself is the shareholder in the amalgamating company, it shall not be necessary for it to issue share or shares.</i>
<i>47(viiaa)</i>	<i>Transfer of rupee denominated bond outside India by a NR to another NR</i>
<i>47(viib)</i>	<i>Transfer of Government security outside India by a NR to another NR</i>
<i>47(viic)</i>	<i>Redemption of sovereign gold bonds by an Individual</i>
<i>47 (viid)</i>	<i>Conversion of gold into Electronic gold receipt and vice-versa.</i>
<i>47(ix)</i>	<i>Transfer of specified capital assets to the Government or university, etc</i>
<i>47(x)</i>	<i>Transfer on conversion of bonds/debentures etc into shares/debentures.</i>
<i>47(xb)</i>	<i>Conversion of preference shares into equity shares.</i>
<i>47(xvi)</i>	<i>Being transfer of a capital asset in a transaction of reverse mortgage</i>

### 1.5) When is the capital gain chargeable to tax

- a) Generally capital Gains are chargeable to tax in the year in which sale or transfer takes place.
- b) However there are certain exceptions to the above rule.
- 1) Insurance claim received
  - 2) Conversion of capital asset into stock in trade
  - 3) Compulsory acquisition.

### 1.6) Computation / Format

- a) Method of *accounting* followed by the assessee is not relevant in computing the capital gains

**Short term capital gain arises on transfer of short term capital asset.**

**Long term capital gain arises on transfer of long term capital asset.**

### b) Computation of Short term Capital Gains:

Particulars	Rs.	Rs.
Sales consideration	XXX	
Less: COA	XXX	
Less: COI	XXX	
Less: expenses on transfer	XXX	
	XXX	
Less : Exemption u/s 54B, 54D	XXX	
Short Term Capital Gain / Loss		XXX

### c) Computation of Long term Capital Gains:

Particulars	Rs.	Rs.
Sales consideration	XX	
Less: COA	XX	
Less: COI	XX	
Less: expenses on transfer	XX	
	XXX	
Less : Exemption u/s 54, 54B, 54D, 54EC, 54EE, 54F	XXX	
Long Term Capital Gain / Loss		XXX

#### Meaning of some terms

COA = Acquisition cost + Brokerage stamp duty registration fee legal exp.

}

in connection with the purchase

COI = Capital expenditure incurred in making additions or improvements  
eg. Additional floor or room constructed in a property.

Exp on transfer = Expenses in connection with transfer  
eg. brokerage, stamp duty, registration fee, legal exp etc.

Notes :

- 1) STT is not allowed as exp under Capital Gains.
- 2) W.e.f FA 2023 - Any interest on loan taken for House Property which is allowed as deduction u/s 24b or under chapter VI A (80EE/80EEA) would not be considered in COA/COI

ICOA =

ICOI =

## Meaning of Cost Inflation Index (CII)

It is the index notified by central government having regarded to 75% of average rise in Consume price index.

## Special Points

### If a capital asset is acquired before 01/04/2001

a) Remember the following rules:

a. COA = Actual cost or FMV as on 01/04/2001 whichever is higher

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

b. ICOA =

c. Any cost of improvement incurred before 01/04/2001 should be ignored.

### 1.8) Capital asset acquired in modes specified under section 49(1)

a) Partition of HUF

b) Gift, will or inheritance.

c) Transfer of asset by wholly own holding

company to subsidiary company & vis-à-vis

are not treated as transfer

Father → Son → Sale

**Remember the following rules:**

- a. COA = Cost to the previous owner
- b. There will be no Capital Gains in the hands of father & there will be capital gain in the hands of son. Who is treated as assessee.
- c. To consider whether the asset is long term or short term in nature the period of holding of previous owner & assessee both are considered.
- d. Cost of Improvement of previous owner & assessee both are considered.

Note the issue as to whether indexation benefit in respect of a gifted asset shall apply from the year in which the asset was first held by the assessee or from the year in which the same was first acquired by the previous owner was taken up by the **Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42 (Bom.)**.

The Bombay High Court held that the indexed cost of acquisition in case of gifted asset has to be computed with reference to the year in which the previous owner first held the asset and not the year in which the assessee became the owner of the asset.

- e. Where the cost of property in the hands of the previous owner cannot be ascertained then the FMV on the date on which capital asset becomes the property of the previous owner would be considered as COA.

1. X & sons, HUF, purchased a land for Rs. 1,20,000 in the P.Y. 2008-09. In the P.Y. 2011-12, a partition takes place when Mr. A, a co-parcener, is allotted this plot valued at Rs. 1,50,000. In P.Y. 2012-13, he had incurred expenses of Rs. 2,35,000 towards fencing of the plot. Mr. A sells this plot of land for Rs. 15,00,000 in P.Y. 2023-24 after incurring expenses to the extent of Rs. 20,000. You are required to compute the capital gain.

2 Mr. C purchases a house property for Rs. 1,06,000 on May 15, 1980. The following expenses are incurred by him for making addition/alternation to the house property:

	Particulars	Rs.
a.	Cost of construction of floor in 1984-85	3,10,000
b.	Cost of construction of the second floor in 2007-08	7,35,000
c.	Reconstruction of the property in 2017-18	5,50,000

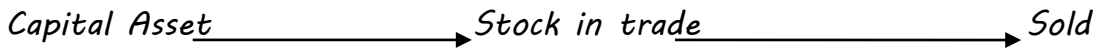
Fair market value of the property on April 1, 2001 is Rs. 8,50,000. The SDV on that date is 8,00,000 the house property is sold by Mr. C on August 10, 2023 for Rs. 68,00,000 (expenses incurred on transfer Rs. 50,000).

Compute the capital gain for the assessment year 2024-25.

## Concept 2: Special Cases:

2.1) Following are some of the special cases where COA or sometimes sale consideration is determined in a special way

### 1) Conversion of capital asset into stock in trade:



b) CG will be taxable in the year in which stock in trade is sold.

Capital Gain	Business Income
1. Sale consideration = FMV as on date of conversion	1. Cost = FMV as on date of conversion
2. ICOA =	

3. Mr. A converts his capital asset acquired for an amount of Rs. 50,000 in June, 2003 into stock in trade in the month of November, 2022. The fair market value of the asset on the date of conversion is Rs. 4,50,000. The stock-in-trade was sold for an amount of Rs. 6,50,000 in the month of September, 2023. What will be the tax treatment? (Module question)

4. Arav converts his plot of land purchased in July, 2004 for Rs. 80,000 into stock in trade on 31<sup>st</sup> March, 2023. The fair market value as on 31-3-2023 was Rs. 3,00,000. The stock in trade was sold for Rs. 3,25,000 in the month of January, 2024. Find out the taxable income, if any, and if so under which the head of income and for which Assessment Year? (Module question)

### 2) Conversion of stock into capital gains (wef AY 19-20):

There will be Business income arising on conversion u/s 28 of PGBP

Business income

Sale Price = FMV as on date of conversion

Cost = Act cost of stock in trade

## Capital Gain

When Capital Asset is sold there shall be capital gains

$$COA = FMV \text{ as on date of conversion}$$

### 3) Bonus Shares:

Date of issue of Bonus Shares	COA
Issued before 01/04/2001	
Issued after 01/04/2001	

The period of holding of Bonus share is counted from date of issue of bonus share. It has nothing to do with original share

5. Ms. Usha purchases 1,000 equity shares in X Ltd., at a cost of Rs. 30 per share (brokerage 1%) in January 2000. She gets 100 bonus shares in August 2000. She again gets 1100 bonus shares by virtue of her holding on February 2009. Fair market value of the shares of X Ltd. on April 1, 2001 is Rs. 80. In January 2024, she transfers all her shares @ Rs. 200 per share (brokerage 2%).

Compute the capital gains taxable in the hands of Ms. Usha for the A.Y. 2024-25.

### 4) Right shares

i) If existing shareholder purchases the right shares then COA =

ii) If the shareholders doesn't buy all the right shares, he can sell his right entitlement. In that case there will be short term capital gain

Cost of right entitlement = \_\_\_\_\_

iii) In case of the person who purchases the right entitlement, the cost of the right shares will be; COA =

6. Mr. R holds 1000 shares in Star Minus Ltd., an unlisted company, acquired in the year 2006 - 07 at a cost of Rs. 75,000. He has been offered right shares by the company in the month of August, 2023 at Rs. 160 per share, in the ratio of 2 for every 5 held. He retains 50% of the rights and renounces the balance right shares in favour of Mr. Q for 6000 in September 2023.

All the shares are sold by Mr. R for Rs. 300 per share in January 2024 and Mr. Q sells 150 shares in December 2023 at Rs. 280 per share.

What are the capital gains taxable in the hands of Mr. R and Mr. Q?

### 5) Self Generated Assets

1) COA for self generated assets = NIL

2) Self generated assets like-

a) goodwill of business or profession or (wef AY 22-23)

b) a right to manufacture, produce or process any article or thing or

c) right to carry on any business or profession

d) tenancy rights

e) stage carriage permits and

f) loom hours

3) However in case of the above assets are acquired from previous owner then it is not self Generated. In such a case COA = Purchase price

In case of purchased goodwill of business or profession if depreciation has been claimed

COA = Purchase Price (-) Total depreciation u/s 32. (FA 2021).

4) In case any of the above assets are acquired in modes specified u/s 49(1)

COA = COA of previous owner

COA = COA of previous owner (-) depreciation claimed u/s 32 by assessee.

	Self generated	Purchased	
Goodwill of business or Profession			Goodwill of business or Profession
Other Assets			

**Q8.** X transfers the following assets on 15<sup>th</sup> May 2023.

Particulars	Cost	FMV 4.2001	Sale Consideration
Land acquired in 1988	1,20,000	(SDV)1,45,000	6,85,000
Goodwill of Business	-	10,000	1,75,000
Tenancy Rights	-	30,000	2,00,000

Goodwill and tenancy were self-generated. Calculate capital gains chargeable to tax for the assessment year 2024-25. Does it make any difference if goodwill is of profession?

### 6) Compulsory Acquisition:-

Compulsory Acquisition is treated as transfer. Capital Gain is charged to tax in the year in which

the compensation is first received. Capital Gain is calculated as follows:

Particulars	Asset ST/LT
Sale Consideration	
Less: ICOA/COA	
Less: ICOI=	
Less: Expenses of Transfer	
STCG/LTCG	

*In case of additional or enhanced compensation,*

- i) CG will be charged to tax in the year in which the order of the Court/tribunal is received.
- ii) Nature of gain will be same as the original gain.

Capital gain will be calculated as follows:

Particulars	Amount ST/LT
Sale consideration	
Less: ICOA/COA	
Less: ICOI/COI	
Less: expenses on transfer	
∴ STCG/LTCG	

7. The Government of Kerala acquires a commercial building owned by X Ltd. on March 10, 2015. the Government awards Rs.14,00,000 as compensation in the first instance (out of which Rs.10,000 is received on April 1, 2023 and the balance Rs. 13,90,000 is received on April 10, 2024) (cost of acquisition, on May 5, 2012: Rs.6,70,000) on appeal of X Ltd. the Kerala High Court increased the compensation, to Rs. 18,25,000 (expenditure on Court's proceedings Rs.5,000). The additional compensation Rs.4,25,000 is received by X Ltd. on May 6, 2024 order of the court was passed in the same year. Find out the capital gains chargeable to tax for various assessment years.

### 7) Capital Gains in case of assets distributed to shareholders on liquidation:

*i. In the hands of company:*

- a. Distribution of assets on liquidation is not treated as transfer in the hands of company. So there will be no CG in the hands of company.
- b. To the extent of accumulated profit there will be deemed dividend



**ii. In the hands of shareholders:**

- a. Calculate the total consideration received in the hands of shareholder.
- b. There will be CG in the hands of shareholder.
- c. Deemed dividend will be taxable in the hands of the shareholders under 105.

**Q10.** X holds 600 shares in Y Ltd. since 2008-09 (cost of acquisition: Rs.65000). Y Ltd. goes into Liquidation in 2023-24. The balance sheet of the company as on November 30, 2023 is as follows:

**Balance Sheet as on 30-11-2023**

Liabilities	Rs.	Assets	Rs.
1000 equity shares	10,000,00	10 flats in Bombay (cost of each flat Rs.50,000 acquired on March 11,2011)	20,00,000
Profit and Loss a/c	11,69,950	Cash in Hand	1,69,950
<b>Total</b>	<b>21,69,950</b>	<b>Total</b>	<b>21,69,950</b>

At the time of liquidation, X gets 6 flats on Nov 2023 in Bombay and Rs.6,000 in cash. Ascertain the tax consequences of these transactions in the hands of X and Y Ltd.

**8) Depreciable Asset: (Section 50)**

- a. Capital Gain/loss is calculated only when the block of assets is over. i.e. it is calculated only in two situations
- b. Capital Gain/Loss is never calculated for individual asset.
- c. It is calculated for the block, when the block is physically empty or its value Zero/negative.
- d. Depreciable assets are always short term in nature.
- e. Benefit of indexation isn't available.
- f. A new proviso has been added to section 50 so that CBDT can prescribe a manner to determine WDV of the block of the asset and STCG if goodwill of a business or profession is forming a part of the block of asset as on AY 20-21 and depreciation has been claimed on it.

Capital gain is calculated as follows:

Particulars	Amount ST/LT
Sale consideration	
Less: COA/COI	

Less: expenses on transfer	
∴ STCG/STCL	

Q8. Singhania & Co., a sole proprietorship owns six machines, put in use for business in March, 2022. The depreciation on these machines is charged @ 15%. The opening balance of these machines after providing depreciation for PY 2022-23 was 8,50,000. Three of the old machines were sold on 10<sup>th</sup> June, 2023 for Rs. 11,00,000. A second hand plant was bought for Rs. 8,50,000 on 30<sup>th</sup> November, 2023.

You are required to:

- i. Determine the claim of depreciation for Assessment Year 2024-25:
- ii. Compute the capital gains liable to tax for Assessment Year 2024-25.
- iii. If Singhania & Co. had sold the three machines in June, 2023 for Rs. 21,00,000, will there be any difference in your above workings? Explain. (Module Question)

### Section 50 AA - CG in case of market linked debentures (w.e.f. FA 2023)

1. Section 50 AA is an over riding section
2. It is applicable for
  - a. a specified mutual fund acquired on or after 1/4/2023
  - b. market linked debentures
3. Irrespective of POHA these assets would be **deemed to be STCA**
4. The STCG will be taxable at **normal rate of tax**.
5. Computation of capital Gain.

Particulars	Rs.
Sale consideration (sale price redemption or maturity value)	xx
Less COA	xx
Less COI (Financial assets like share, debentures, mutual funds do not have any COI)	NIL
Less exp on trf (STT not allowed)	xx
STC Gain	xx

6. Market linked debenture means any security classified as a market linked debenture by SEBI

7. Its returns are linked to market returns or underlying securities. Generally underlying security is nifty index / Gold Bonds / Securities

Specified Mutual Funds

Mutual Fund  $\longrightarrow$  Max 35% of its proceeds is invested

## 9) Slump sale -50B:

Section 2(42C) Slump Sale means: transfer of one or more undertakings by any means for a lump sum consideration without values being assigned to individual assets and liabilities in such sales .

a. Entire unit/ undertaking is transferred by any means . (FA 2021)

Transfer meaning is same like Section 2(47).

b. No value is allocated to individual Asset/Liabilities.

c. Sale consideration = FMV of the capital asset or market value of the consideration (monetary & non monetary) whichever is higher

d. The gain can be short term/ long term.

e. Even if it is long term, benefit of indexation is not available.

COA/COI = \_\_\_\_\_

f. While calculating Net worth, remember the following points:

i) For depreciable asset consider WDV.

ii) Ignore revaluation

iii) Net worth=Assets-Liabilities.

iv) Cost of self generated goodwill will be Nil.

v) For capital assets where 35AD claimed, cost = Nil

vi) Chartered Accountant has to submit a report certifying that net worth has been correctly calculated. Same should be submitted within the dates specified u/s 44AB

ie., 30<sup>th</sup> September.



Q9. Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1-4-2023 his Unit 1 by way of slump sale for a total consideration of Rs. 25 lacs. The fair market value of the unit as on 1-4-2023 is 30 lakhs. Unit 1 was started in the year 2005-06 .The expenses incurred for this transfer were Rs. 28,000. His Balance Sheet as on 31-3-2023 is as under:

Liabilities	Total(Rs.)	Assets	Unit 1 (Rs.)	Unit 2(Rs.)	Total(Rs.)
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for building unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000

## 5. Capital Gains

Bank Loan (70% for unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade creditors(25% for unit1)	1,50,000	Other assets	1,50,000	60,000	2,10,000
<b>Total</b>	<b>21,50,000</b>	<b>Total</b>	<b>17,50,000</b>	<b>4,00,000</b>	<b>21,50,000</b>

Other information:

- i. Revaluation reserve is created by revising upward the value of the building of Unit 1.
- ii. No individual value of any asset is considered in the transfer deed.
- iii. Other assets of Unit 1 include patents acquired on 01-07-2021 for Rs. 50,000 on which no depreciation has been charged.

Compute the Capital Gain for the assessment year 2024-25 (Module Question)

### 10) Capital Gain in case of NR-shares/securities in Indian Company:

- a. Capital gain is calculated in foreign currency:
- b. The shares may be short term/long term in nature
- c. Even if long term benefit of indexation is not available.

Particulars	Rate	Date
Sale consideration	Average rate	Date of transfer
Less: COA	Average rate	Date of acquisition
Less: Exp on transfer	Average rate	Date of transfer
Capital gain in foreign currency		XXX
Capital gain in Indian currency( Buying rate as on the date of transfer)		XXX

**Average Rate =**

Q10. X a non-resident remits US \$ 60,000 to India on 10 August 2014. The amount is partly utilized on 17<sup>th</sup> August, 2014 for purchasing 50,000 shares in Lotus Ltd an Indian Company (unlisted) at the rate of Rs. 6 per share. These shares are sold for Rs. 28 per share on 10<sup>th</sup> April 2023. Find out capital gains chargeable to tax assuming the following TT rates. FMV on 10-4-2023 is 32 per share.

10 <sup>th</sup> August 2014	Buying 1\$= Rs 48.30	Selling 1\$ = Rs 49.10
------------------------------	----------------------	------------------------

17 <sup>th</sup> August 2014	Buying 1\$ = Rs 48.40	Selling 1\$ = Rs 49.30
10 <sup>th</sup> April 2023	Buying 1\$ = Rs 65.90	Selling 1\$ = Rs 66.40

**11) ESOPS: Employee Stock Option Scheme:**

Q11. Mr. X was offered 1,000 shares of his employer's company for Rs. 75 per share. Mr. X exercised the option. On that date FMV was Rs. 115 per share. After the shares were allotted Mr. X sold the shares within 2 months for Rs. 160 per share. Give the tax implications.

**12) Conversion of debentures into shares:**

It is not treated as transfer so there will be no capital gain on conversion of debentures into shares.

COA =

For shares, the period of holding will be counted from date of allotment of debenture.

Q12. Mr. B purchased convertible debentures for Rs. 5,00,000 during August 2005. The debentures were converted into shares in September 2018. These shares were sold for Rs. 15,00,000 in August, 2023. The brokerage expenses are Rs. 50,000. You are required to compute the capital gains in case of Mr. B for the assessment year 2024-25.

**13) Conversion of preference shares into equity shares:**

a. Conversion of preference shares into equity shares shall not be treated as transfer, so no capital gains on conversion

b. COA of equity shares = Cost of such preference shares

c. Period of holding of equity shares includes the period of holding of preference shares.

## 14) Shares received in the scheme of amalgamation:-

13. M held 2000 shares in a company ABC Ltd., an Indian Company. This company amalgamated with another Indian Company XYZ Ltd. during the PY ending 31-3-2024. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by 50,000 than the value of holding in ABC Ltd. The Assessing Officer proposes to treat the transaction as an exchange and to tax 50,000 as capital gain. Is he justified? (Module Question)

## 15) Capital gain in case of transfer of immovable property: Sec 50 C

1. Assessee agrees with stamp valuation:

2. Assessee files an appeal for stamp valuation capital gain:

3. Assessee doesn't agree with stamp valuation but doesn't appeal; He claims in front of Assessing officers that the stamp valuation is more than FMV

### Important Points:

1) 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 purpose of computation full value of consideration for such transfer if a part or full consideration is received by account payee cheque or account payee DD or ECS

2) However, where the stamp duty value does not exceed 110% (earlier it was 105%) of the sale consideration received or accruing as a result of the transfer, the consideration so received or accruing shall be deemed to be the full value of the consideration.

3) Sale of Building (Section 50C)

No.	Sale consideration	Stamp value	
1	10,00,000	10,40,000	

2	10,00,000	11,70,000	
3	10,00,000	9,50,000	
4	10,00,000 <i>Note: Entire consideration was received by cheque.</i>	A = 10-6-2023 Rs. 10,70,000 R = 10-9-2023 Rs. 11,20,000	

14. Mr. Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty value @10% on the stamp duty value of ₹ 3,50,000. In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2015, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2015, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000. On November 15, 2022, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2024. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker. On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15<sup>th</sup> November, 2023 was 39,00,000 and on 20<sup>th</sup> February, 2024 was 41,00,000. Compute the capital gains in the hands of Mr. Shiva for A.Y. 2024-25. (Module Question)

### 16) Insurance claim received:

#### 1. On destruction of Capital Asset Section 45(1A)

Treated as transfer if destruction is by following modes:-

1. Flood, cyclones, earthquake
2. Riot, Civil disturbance

3. Accidental Fire

4. War attack by the enemy

i) There will be capital gain: - Sale Consideration = Insurance claim and/or FMV of the other asset that is received.

ii) Capital Gain will be taxable in the year the claim money is received.

## 2. On destruction of Capital Assets Other than reasons mentioned in Section 45(1A)

1. No transfer & no capital gain.

2. Capital receipt exempt from tax.

## 3. On destruction of stock in trade

1. Business/Revenue income.

For example : If the insurance company after destruction of plant & machinery due to fire gave a new plant & machinery. FMV of the machinery is 30 lakhs.

For example : Assume, machinery is got destroyed due to sinking of ship which was carrying the machinery. Insurance claim received 32 lakhs.

15. Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident. The value of stock lost (total damaged) was Rs. 6,50,000. Certain portion of the machinery could be salvaged. The opening WDV of the block as on 1-4-2023'

(ie. WDV as on 31/03/2023 after providing depr for PY 22-23) was Rs. 10,80,000. During the process of safeguarding machinery and in the firefighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2005 for Rs. 1,20,000. The market value of these two items as on the date of fire accident was Rs. 1,80,000. Mr. A received the following amounts from the insurance company:

i)	Towards loss of stock	Rs. 4,80,000
ii)	Towards damage of machinery	Rs. 6,00,000
iii)	Towards gold chain and diamond ring	Rs. 1,80,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961. (Module Question)

## 17) Advance forfeited:

Advance forfeited w.e.f. AY15-16 shall be taxable under Income from Other Sources. If the advance forfeited is up to AY14-15 then it was allowed to be reduced from cost of acquisition while calculating capital gain. At present, Advance forfeited is not



considered under capital gain because it is covered under 105. Also, if there is any advance forfeited by previous owner, the same should not be considered while calculating capital gain.

upto AY 14-15 →

wef from AY 15-16 →

16. Mr. Kay purchases a house property on April 10, 1995 for Rs. 65,000. The fair market value of the house property on April 1, 2001 was Rs. 2,70,000. The FMV did not exceed the SDV. On August 31, 2006, Mr. Kay enters into an agreement with Mr. Jay for sale of such property for Rs. 3,70,000 and received an amount of Rs. 60,000 as advance. However, as Mr. Jay did not pay the balance amount, Mr. Kay forfeited the advance. In May 2013, Mr. Kay constructed the first floor by incurring a cost of Rs. 2,35,000. Subsequently, in January 2014, Mr. Kay gifted the house to his son Mr. Dee. On February 10, 2024, Mr. Dee sold the house for Rs. 12,00,000.

Compute the capital gains in the hands of Mr. Dee for A.Y 2024-25. Mr. Dee before selling the house tried to sell the house to Mr. Eee and received an advance of Rs. 80,000 in March 2014 which was later of forfeited.

### 18) Capital Gain in case of Gifted asset (taxable under 105 56 (2)(x)):

17. Mr. A a dealer in shares, received the following without consideration during the P.Y. 2023-24 from his friend Mr. B,

1. Cash gift of Rs. 75,000 on his anniversary, 15<sup>th</sup> April, 2023.

2. Bullion, the fair market value of which was Rs. 60,000 on his birthday, 19<sup>th</sup> June, 2023.

3. A plot of land at Faridabad on 1<sup>st</sup> of July, 2023, the stamp value of which is Rs. 5 lakh on that date. Mr. B had purchased the land in April 2009.

Mr. A purchased from his friend C, who is also a dealer in shares, 1000 shares of X Ltd. @Rs 400 each on 19<sup>th</sup> June 2023, the fair market value of which was Rs. 600 each on that date. Mr. A sold these shares in the course of his business on 23<sup>rd</sup> June, 2023.

Further, on 1<sup>st</sup> November, 2023, Mr. A took possession of property (office building) booked by him two years back at Rs. 20 lakhs. The stamp duty value of the property

as on 1<sup>st</sup> November, 2023 is Rs.32 lakh and on the date of booking was Rs. 23 lakh. He had paid RS 1 lakh by account payee cheque as down payment on the date of the booking. On 1<sup>st</sup> March, 2024, he sold the plot of land at Faridabad for Rs.7 lakh. Compute the income of Mr. A chargeable under the head 'Income from other sources' and 'Capital Gains' for A.Y. 2024-25 (Module Question)

### 19) maturity of ULIP gets taxed u/s 45(1B) of Capital Gains

However the same has been excluded from CA intermediate syllabus

### 20) Buyback of shares:

(1)	(2)	(3)
Taxability in the hands of the -	Buyback of shares by domestic companies	Buyback of shares other than shares referred to in column(2) or other
Company	Subject to additional income tax @ 20% + (surcharge 12% and education cess @ 4 %).	Not subject to tax in the hands of the Company.
Shareholders	Income arising to shareholders exempt under section 10(34A).	Income arising to shareholders taxable as capital gains under section 46A.

### 21) Section 50 CA inserted w.r.f. AY 18-19 - Sale of

Then sale consideration = Actual sale consideration or FMV whichever is higher

### 22) Demerger of two foreign companies

During demerger of foreign co. into a resultant foreign co. shares of Indian co. are transferred then it is not treated as transfer

COA of Indian shares in resultant company = COA of shares of demerged company

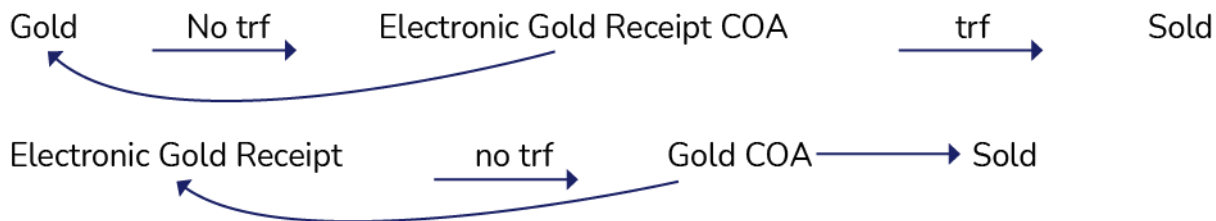
## 23) Fair Market Value Deemed to be Full Value of Consideration in Certain Cases:[Sec 50D]

W.e.f AY 13-14, where the consideration received on transfer of a capital asset is not ascertainable, then

**Sale Consideration=Fair Market Value.**



The above conversion is not treated as transfer



**Note :** The benefit of indexation will not apply to the long-term capital gains arising from the transfer

of bonds or debentures (However Capital indexed bonds issued by the Government; or Sovereign Gold Bond issued by the RBI under the Sovereign Gold Bond Scheme, 2015 will get benefit of indexation)

In case of depreciable assets, there will be no indexation and the capital Gains will always be STCG.

**Slump Sale**

Indian shares and securities sold by non- resident.

Section 112 A, no benefit of in deduction in case of LTCG on equity shares and equity Oriented MF in case of LTCG above Rs. 1,00,000 w.e.f AY 19-20.

Market linked debentures / units of specified mutual funds will always be ST

**Section 55A reference to Valuation officer**

In view to determining the fair market value of capital asset, assessing officer may refer valuation of capital asset to valuation in following cases:

Assessing officer is of the opinion that value claimed by assessee (based on estimated made by registered value) is less than FMV of the asset.

Assessing officer is of opinion that FMV of asset exceeds value claimed by assessee by more Than Rs. 25,000/- or 15%of value of asset whichever is less.

Assessing officer feels it necessary to do so having regard to nature of asset and relevant Circumstances.

### 2.3) Section 55A reference to Valuation officer

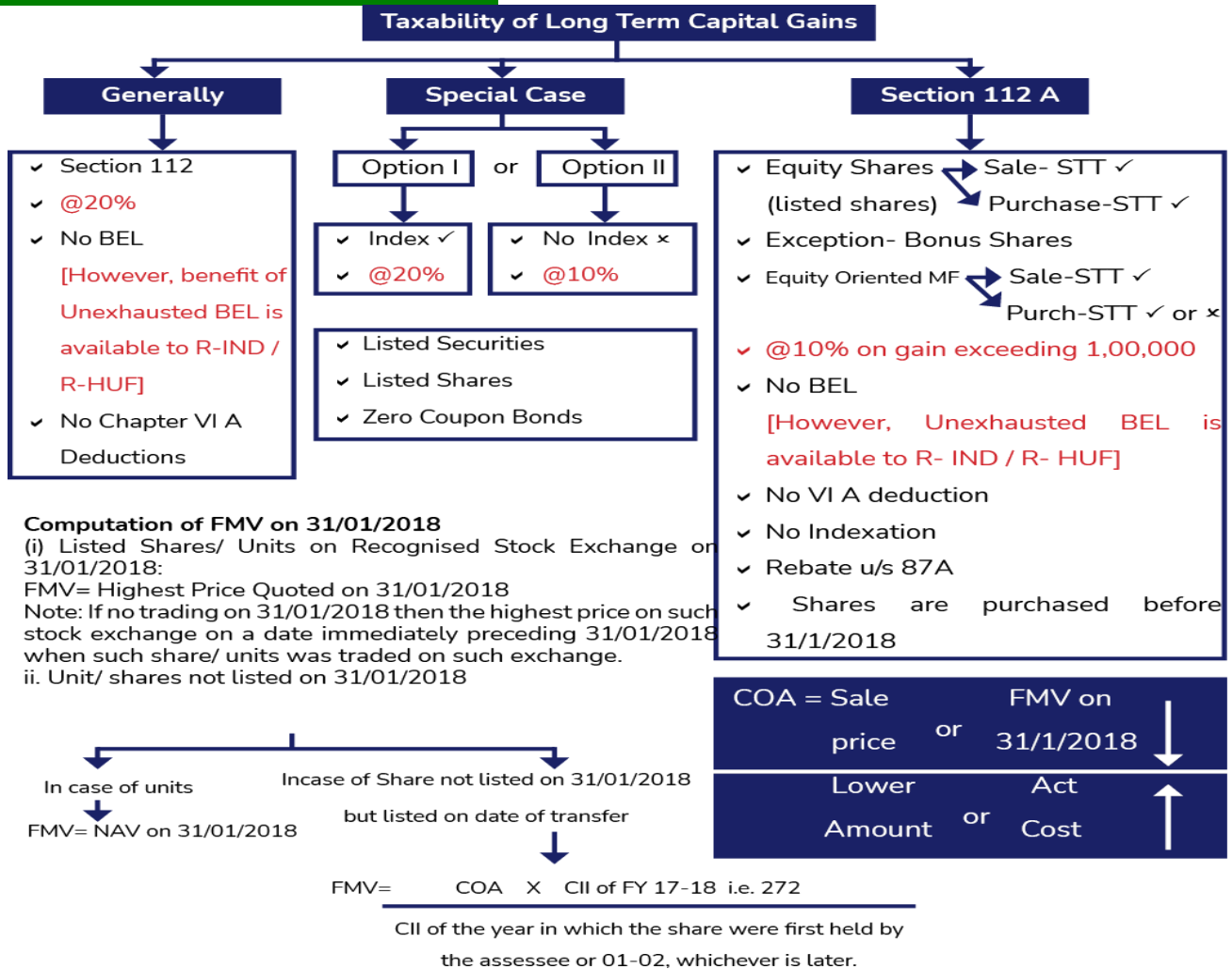
In view to determining the fair market value of capital asset, assessing officer may refer valuation of capital asset to valuation in following cases:

1. Assessing officer is of the opinion that value claimed by assessee (based on estimated made by registered value) is less than FMV of the asset.

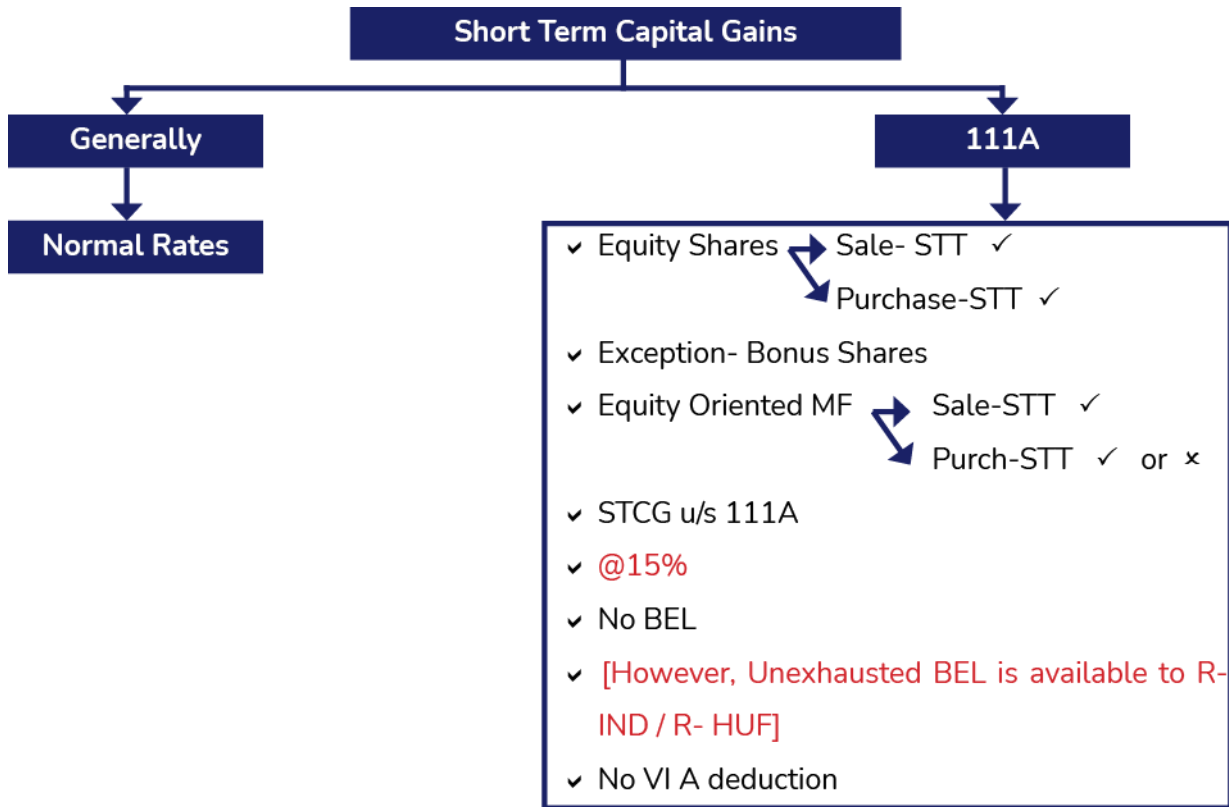
2. Assessing officer is of opinion that FMV of asset exceeds value claimed by assessee by more Than Rs. 25,000/- or 15%of value of asset whichever is less.

Assessing officer feels it necessary to do so having regard to nature of asset and relevant Circumstances.

### Concept 3: Taxation of Capital Gain:



No.	Particulars				LTCG
1.	An equity share purchased on 01-01-2018				
	No.	COA	FMV	Sold	
		01-01-17	31-01-18	1-04-23	
	1	100	200	250	
	2	100	200	150	
	3	100	50	150	
4	100	200	50		



Q. 18. Calculate the income - tax liability for the assessment year 2023-24 in the following cases (Module Question )

Status	Mr. A (age 45)	Mrs. B (age 62) Non- resident	Mr. C (age 81) Resident	Mr. D (age 82) Non- resident
Total income other than LTCG	2,40,000	2,80,000	5,90,000	4,80,000
LTCG	15,000 from sale of vacant site	10,000 from sale of listed shares (STT paid on sale & purchase of shares)	60,000 from sale of agricultural land in rural area	Nil

Note: assume that Mr. A, Mrs. B, Mr. C and Mr. D do not opt for Section 115BAC.

Q. 19. Mr. Mithun purchased 100 shares of M/s Good money Co. Ltd. on 01-04-2007 at rate of 1,000 per share in public issue of the company by paying securities transaction tax. Company allotted bonus shares in the ratio of 1:1 on 01-12-2022. He has also received dividend of Rs. 10 per share on 01-05-2023. He has sold all the shares on 01-10-2023 at the rate of Rs. 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02% to celebrate his 75th birthday. Compute his total income and tax liability for Assessment Year 2024-25, assuming that he is having no income other than given above. FMV of shares

as on 31-01-2018 is Rs. 2000. (Module Question)

Q. 20. Find out the tax liability of Mrs. X (63 years), a resident individual from the data given below:

Particulars	Rs.
Long-term capital gain arising on transfer of gold	30,000
Interest on deposit with a firm	3,35,000
Deductions under chapter VIA	61,000

Does it make any difference if X is (a) a resident Hindu undivided family or (b) a non-resident foreign citizen?

Q. 21. X sells the following assets outside a recognized stock exchange on May 19, 2023.

	Government Securities	Preference Shares (Listed)
Sale consideration	2,90,000	10,92,000
Cost of acquisition	1,40,000	4,00,000
Date of purchase	April 19, 2018	April 28, 2011

Find out the amount of tax liability for the assessment year 2024-25 on the following Assumptions-

a. Income of X from business: Rs.5,56,000;

b. Amount invested in NSC VIII Issued on March 31, 2024; Rs.10, 000.

Q.22 Mr. X salary income = 15,23,800 STC gain on sale HP= 2,24,000

STC gain on equity shares = 1,10,200

PPF contribution =1,50,000.

Q.23. Mr. X in a resident assessee and has following income. Calculate tax liability.

PGBP =844000, STC gain (gold) =92170, STCG u/s 111A= 42980, 80C bonds of NABARD= 100000.

Q.24. Mr. X (Resident ) 43 years has following incomes

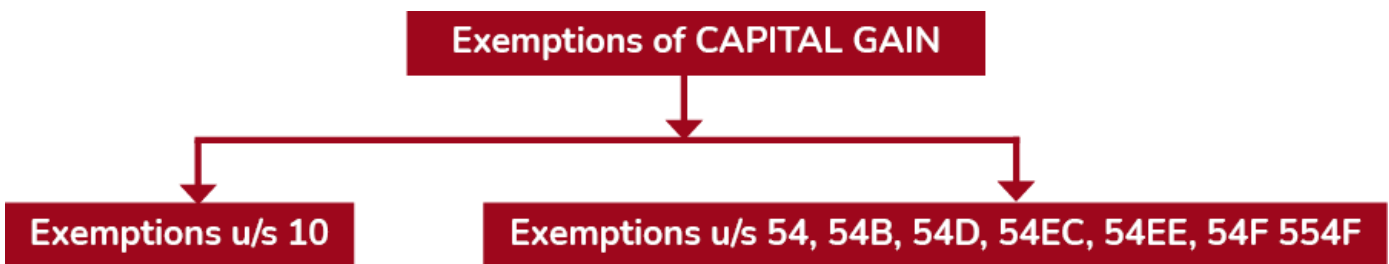
Pension =12,000, STC Gain HP = 1,00,000, STC Gain u/s 111A=2,15,400, PPF =35,000, Compute tax liability.

Q. 25. Calculate tax liability in question above assuming Mr. X is non Resident and his 80C deduction is 35,000.

Q.26 Mr. Agarwal aged 40 years and a resident in India, has a total income of ₹ 4,50,00,000, comprising long term capital gain taxable under section 112 of ₹ 55,00,000, short term capital gain taxable under section 111A of ₹ 65,00,000 and other income of ₹ 3,30,00,000. Compute his tax liability for A.Y.2024-25. Assume that Mr. Kashyap has not opted for the provisions of section 115BAC. (Module Question from Basic Concepts)

Q.27 Mr. Sharma aged 62 years and a resident in India, has a total income of 2,30,00,000, comprising long term capital gain taxable under section 112 of 52,00,000, short term capital gain taxable under section 111A of ₹ 64,00,000 and other income of ₹ 1,14,00,000. Compute his tax liability for A.Y.2024-25. Assume that Mr. Sharma has not opted for the provisions of section 115BAC.

### Concept 4: Exemption:



### 1. Exemptions under section 10

10(37)	<ul style="list-style-type: none"> <li>• Capital gains on compulsory acquisition of agricultural land situated within urban limits will be exempt subject to certain conditions if assessee is individual or HUF.</li> <li>• Agricultural land in urban area is compulsorily acquired, such land has been used for agricultural purposes during the preceding two years by such individual or a parent Of his or by such HUF.</li> <li>• Compulsory acquisition takes place by central Government or RBI.</li> </ul>
10(38)	<b>Exemption withdrawn w.e.f. AY 2019-20</b>
10(43)	The amount received by the senior citizen as a loan, either in lump sum or in installments, in a transaction of reverse mortgage would be exempt from income-tax.
	<b>What is reverse Mortgage ?</b> Mortgage scheme is for the benefit of senior citizens, who own residential

house property. In order to supplement their existing income, they can mortgage their house property with a scheduled bank or housing finance company, in return for a lump-sum amount or for a regular monthly/quarterly/ annual income. The senior citizens can continue to live in the house and receive regular income, without the botheration of having to pay back the loan.

The bank will recover the loan along with the accumulated interest by selling the house after the death of the borrower. The excess amount will be given to the legal heirs. However, before resorting to sale of the house, preference will be given to the legal heirs to repay the loan and interest and get the mortgaged property released.

Note : When the bank sale the property to recover the money there will be CG.



## 5. Capital Gains

Section	Original CA	Re-invested in	Time for Re-investment	Conditions on new assets	Exemption	Deposit Scheme
54 Individual & HUF	Long term Residential House Property	RHP (Only one in India) or 2 residential house in India at the option of assessee where capital gains does not exceed 2 crore.	Purchase 1 year before or within 2 years or construct within 3 years from transfer date of original asset	The R.H.P. i.e. the re-investment should not be sold for 3 years from its purchase	Capital Gains or Re-investment whichever is lower	Applicable
54B Individual & HUF	Agricultural land situated in urban area (ST/LT). It should be used for agriculture purpose at least for 2 years prior to its sale	Agriculture land in urban area / rural area	Purchase within 2 years from date of transfer	Not be sold for 3 years from its purchase	Capital Gains or Re-investment whichever is lower	Applicable
54D Any Assessee	Land & Building forming part of industrial undertaking (ST/LT). It has been compulsorily acquired	Land & Building forming part of new industrial undertaking	Purchase within 3 years from date of receipt of compensation	Land & Building should not be sold for 3 years from its purchase	Capital Gains or Re-investment whichever is lower	Applicable

## 5. Capital Gains

<i>54EC Any Assessee</i>	<i>Long term capital asset being land or building or both</i>	<i>In Bonds of 1) NHAI 2) REC 3) Power Finance Corp. Ltd. 4) Indian Railways Finance</i>	<i>6 months from the date of transfer of original asset</i>	<i>Not to be sold for 5 years from its purchase. No loan should be taken for 5 years against security of these bonds. An assessee is allowed to purchase bonds max. of 50,00,000</i>	<i>Capital Gains or Re- investment whichever is lower</i>	<i>Not Applicable</i>
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*Note :*

- 1. Investing in 2 RHP for Section 54 is once in a lifetime option*
- 2. W.e.f FA 2023 - The maximum exemption that can be claimed u/s 54 is ₹ 10 Crore*
- 3. Deposit in CGAS cannot exceed ₹ 10 crore*

Section	Original CA	Re-invested in	Time for Re-investment	Conditions on new assets	Exemption	Deposit Scheme
54EE Any Assessee	Any Long term Capital asset	Unit or units, issued before 01-04-2019, of such fund as may be notified by the central government.	6 months from the date of transfer of original asset	Not be sold 3 years from its purchase. No loan should be obtained for 3 years against security of these bonds. An assessee is allowed to purchase bonds maximum of Rs. 50 lakhs	Capital Gains or Re-investment whichever is lower	Not applicable
54F Individual & HUF	Any long term capital asset other than R.H.P. assessee should own not more than 1 R.H.P as on date of transfer of the original capital asset.	R.H.P. (ONLY ONE IN INDIA)	Purchase 1 year before or within 2 years or construct within 3 years from transfer date of original asset	Not be sold for 3 years from its purchase. Assessee should not buy another house for 2 years or construct another for 3 years from date of transfer of original capital asset.	If entire net consideration is invested then exemption is equal to capital gain. If part of the consideration is invested then proportionate capital gain is exempted	Applicable

Note for 54F

1. For 54F Proportionate Exemption is calculated by using formula
2. Assessee can purchase only 1RHP for 2 years or construct only one RHP for 3 years.
3. The deemed cost of new asset i.e. investment would be restricted to w.e.f. FA 2023 ` 10 crores for the purpose of exemption u/s 54F
4. Deposit in CGAS cannot exceed 10 crore.

1. Exemption u/s 54

	LTCG	New RHP	Exemption
1.	7 Crore	12 Crore	
2.	12 Crore	14 Crore	
3.	11 Crore	9 Crore	
4.	15 Crore	13 Crore	

Exemption = CG or Reinvestment ↓

Exemption u/s 54F

2.

	1.	2.	3.	4.	5.
	Net Consideration	LTCG computed	Cost of new residential house	Amount in column (3) or ₹ 10 crores, whichever is lower	Exempt LTCG
1.	₹ 15 crore	₹ 7.5 crore	₹ 12 crore		
2.	₹ 20 crore	₹ 12 crore	₹ 15 crore		
3.	₹ 16 crore	₹ 12 crore	₹ 8 crore		
4.	₹ 10 crore	₹ 6 crore	₹ 10 crore		
5.	₹ 12 crore	₹ 6 crore	₹ 12 crore		

28. X sells a commercial house property on March 10, 2024 for Rs.10,40,000 (indexed cost of acquisition: Rs. 2,00,000). On April 17, 2024 He purchases the following assets-

Commercial House Property: Rs.6,00,000;

Bonds of Rural Electrification Corporation (redeemable on May 10, 2030): Rs.3,40,000.

Compute Capital Gain for the year.

29. Mr. Roy, aged 55 years owned a Residential House in Ghaziabad. It was acquired by Mr. Roy On 10-10-2012 for Rs. 24,00,000. He sold it for Rs. 65,00,000 on 4-11-2023. The stamp valuation Authority of the State fixed value of the property at Rs. 72,00,000. The assessee paid 2% of the Sale consideration as brokerage on the sale of the said property.

Mr. Roy acquired a residential house property at Kolkata on 10-12-2023 for Rs.7,00,000 and deposited Rs.3,00,000 on 10-4-2024 and Rs.5,00,000 on 15-6-2024 in the capital gains bonds of Rural Electrification Corporation Ltd. He deposited Rs. 4,00,000 on 6-7-2024 and Rs. 9,00,000 on 1-11-2024 in the capital gain deposit scheme in a Nationalized Bank for construction of an additional floor on the residential house property in Kolkata. Compute the Capital Gain chargeable to tax for the Assessment Year 2024-25 and income-tax chargeable thereon assuming Mr. Roy has no other income. Mr. Roy invested Rs. 1,00,000 in PPF

30. Recompute capital gains in the following cases for Problem No. 52

1. Taxpayer is X an individual and the agricultural land is situated in rural area.

2. Taxpayer is X ( HUF) and the agricultural land is situated in urban area.

Taxpayer is X ltd and the agricultural land is situated in urban area.

31. Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2023 for ₹ 1,50,00,000. The sale proceeds were to be paid in the following manner: 20% through account payee bank draft on the date of agreement. 60% on the date of the possession of the property. Balance after the completion of the registration of the title of the property. Mr. Jaikumar was handed over the possession of the property on 15.12.2022 and the registration process was completed on 14.01.2024. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority- on 16.08.2023 was ₹ 1,70,00,000;

on 15.12.2023 was ₹ 1,71,00,000; and

on 14.01.2024 was ₹ 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2024 and another in Delhi for ₹ 35,00,000 on 28.5.2024. Compute the income chargeable under the head "Capital Gains" of Mr. Sarthak for the Assessment Year (Module Question).

# Chart showing Cost Inflation Index

Sr. No.	Financial Year	Cost Inflation Index	Sr. No.	Financial Year	Cost Inflation Index
1	2001 - 2002	100	13	2013 - 2014	220
2	2002-2003	105	14	2014 - 2015	240
3	2003 - 2004	109	15	2015 - 2016	254
4	2004 - 2005	113	16	2016 - 2017	264
5	2005 - 2006	117	17	2017 - 2018	272
6	2006 - 2007	122	18	2018 - 2019	280
7	2007 - 2008	129	19	2019-2020	289
8	2008 - 2009	137	20	2020-2021	301
9	2009 - 2010	148	21	2021-2022	317
10	2010 - 2011	167	22	2022-2023	331
11	2011 - 2012	184			
12	2012 - 2013	200			

Determination of period of holding - clause 1 of explanation 1 to section 1(42A) :In determining of any capital asset by the assessee in the circumstances stated in column (1), the period shall be determined by considering the period specified in column (2)

### Determination of period of holding

S. NO.	Circumstances (Column 1)	Period of holding (Column 2)
1	<i>Where shares held in a company in Liquidation</i>	<i>The period subsequent to the date of liquidation of company shall be excluded</i>
2	<i>Where asset becomes the property of an assessee by virtue of section 49(1)</i>	<i>The period for which the capital asset was Heldby the previous owner shall be included</i>
3	<i>Where inventory of business is converted into or treated as a capital asset by the assessee</i>	<i>Period from the date of conversion or treatment as a capital asset shall be considered.</i>
4	<i>Where share/s in the Indian company (amalgamated company), becomes the property of an assessee in lieu of share/s held by him in the amalgamating company at the time of transfer referred under section 47 (vii).</i>	<i>The period for which the share(s) was held by the assessee in the amalgamating company shall be included</i>
5	<i>Where the share or any other security is subscribed by the assessee on the basis of right to subscribe to any share or security or by the person in whose favour such right is renounced by the assessee</i>	<i>Period from the date of allotment of such share or security shall be reckoned.</i>
6	<i>Where the right to subscribe to any share or security is renounced in favour of any other person</i>	<i>Period from the date of offer of such right by the company or institution shall be reckoned</i>
7	<i>Where any financial asset is allotted without any payment and on the basis of holding of any other financial asset</i>	<i>Period from the date of allotment of such financial asset shall be reckoned</i>
8	<i>Where share/s in the Indian company being a resulting company becomes the property of an assessee in consideration of demerger</i>	<i>The period for which the share/s were held by the assessee in demerged company shall be Included</i>

9	Where unit/s becomes the property of the assessee in consideration of transfer of unit/s in the consolidated scheme of the mutual fund referred to in section 47 (xviii)	The period for which the unit/s in the consolidating scheme of the mutual fund were held by the assessee shall be included
10	Where equity share in a company becomes the property of the assessee by way of conversion of preference shares into equity shares referred under section 47 (xb)	The period for which the preference shares were held by the assessee shall be included
11	Where unit/s becomes the property of the assessee in consideration of transfer of unit/s in the consolidated plan of a mutual fund scheme as referred to in section 47(xix)	The period for which the unit/s in the consolidating plan of a mutual fund scheme were held by the assessee shall be included
12	Where any specified security or sweat equity shares is allotted or transferred directly or indirectly by the employer free of cost or at concessional rate to his employees (including former employees)	Period from the date of allotment or transfer of such specified security or sweat equity shares shall be reckoned

**“Sweat equity shares”** means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing know - how or making available rights in the nature of intellectual property rights or value additions , by whatever name called.

**Budget Quotes - 1st, February 2023**

Tax on capital gains can be avoided by investing proceeds of such gains in residential property. This is proposed to be capped at 10 crore.

- Nirmala Sitharaman



**Contents of Chapter (Sections 56 to 58)**

C1--Introduction
C2-- Income taxable under IOS (Section 56)
C3-- Deductible Expenses(Section 57)
C4--Disallowable expenses (Sec 58)
C5-- Deemed Income (Sec. 59)

**Concept 1: Introduction:-**

**1.1) "Income from other sources" is the last and residuary head of income. Sec.56 defines the scope of income chargeable under this head.**

**1.2) Basis of Charge [Sec.56]:-**

Section 56 specifies eight incomes which are always taxable under the head "Income from Other Sources"

- 1) Dividend
- 2) Winning from lotteries, etc
- 3) Employees contribution towards staff welfare scheme
- 4) Interest on securities
- 5) Rental income of machinery, plant or furniture
- 6) Rental income of letting out of plant, machinery or furniture along with letting out of building and the two are not separable.
- 7) Sum received under Key man insurance policy
- 8) Gift/Receipts without Consideration
- 9) Shares are issued at premium by a company in which public are not substantially interested
- 10) Any compensation or other payments by whatever name called in connection with termination Of his employment or the notification of the terms & condition will be taxable under IOS. It will be Taxed in the year of receipt.

**Any income chargeable to tax, if it does not fall in four specific heads of income, it shall be included under this head.**

**1.3) Relevance of method of accountancy:-**

Income chargeable under this head is computed in accordance with the method of accounting regularly employed by the assessee.

For instance, if books of accounts are kept on the basis of **mercantile system**, income is taxable On "accrual basis" and expenditure is deductible on "accrual basis"

Whereas if books of account are kept on the *cash system*, income is taxable on “receipt” basis And expenditure is deductible on “payment” basis.

### Concept 2: Income taxable under IOS

#### 2.1) Dividend:-

a) Its meaning:-

1. *Dividend in common parlance* :- Dividend in its ordinary connotation means the amount paid to Or received by a shareholder in proportion to his shareholding in a company out of the total sum so distributed

2. *Dividend under the Income Tax Act Sec.2 (22)*:- The following payments or distribution by a company to its shareholders are *deemed as dividend to the extent of accumulated profits* of the company.

a) Any distribution entailing the *release of company's assets*.

b) Any distribution of *debentures, debenture-stock, deposit certificates and bonus to preference shareholders*.

c) Distribution on *liquidation of company*.

d) Distribution on *reduction of capital and;*

e) Any payment by way of *loan or advance by a closely-held company to a shareholder*, holding substantial interest, provided the loan should not have been made in the ordinary course of business and money-lending should not be substantial part of the company's business

3) *Dividend shall not include:*

1. *Any advance or loan* made to a shareholder or a concern in the *ordinary course of its business* where the money lending is substantial part of the business of the company.

2. Any dividend paid /payable which is set off by the company against the whole or any part of the loan which has been deemed as dividend u/s 2(22) (e).

3. *Any payment made for Buy back of shares*.

4. Any distribution of share pursuant to a demerger by resulting company to the shareholders of the demerged company

5. Any distribution u/s 2(22) (c)/ (d) if holder of such shares is not entitled to participate in The surplus assets in the event of liquidation.

## b) Basis of charge for taxing dividend

Type of Dividend	Taxability
Dividend declared	Is income of the shareholder in the previous year in which it is so declared.
Deemed dividend u/s 2(22)(a)/(b)/(c)/(d)	Is income of the previous year in which it is so distributed.
Deemed dividend u/s 2(22)(e)	Is income of the previous year in which it is so paid.
Interim dividend	Is income of the previous year in which such dividend is unconditionally made available by the company to the members who is entitled to it.

c) **Place of accrual:** - Dividend paid by an Indian company is deemed to accrue or arise in India.

d) **Tax treatment of dividend:** (Totally Changed wef AY 21-22)

1) **Tax Treatment in the hands of shareholders or company**

- 1) Dividend income is taxable in the hands of the shareholders. (Indian as well as foreign companies)
- 2) Dividend on mutual funds is also taxable in the hands of mutual fund holder.

## 2-2) Winning from Lotteries, crossword puzzles, horse races & card games, etc.-How to compute [Sec56(2)(b)]:-

1. Only **winnings** from lottery, races, gambling, etc, are chargeable to tax.
2. Such income is also called as **casual income**.
3. **Expenditure** incurred to earn such income is **not allowable**.
4. **Any loss** from such activity is **totally ignored**.
5. It is taxed under the head income from other sources but, **taxed @30%**.
6. No basic exemption limit.
7. Chapter VI A deductions are not available.
8. No loss can be set off against this income.





### 2.3) Interest on Securities[sec56(2)(id)]

#### 1) Meaning:

- a. Interest on any securities of the central government or a state government.
- b. Interest on debentures or other securities for money.
- c. Interest is chargeable on due or receipt basis depending upon the accounting system followed by assessee.

#### 2) Following interest is exempt from Tax u/s 10 (15):

- a. Interest on notified securities bond or certificates (E.g.:-12year National saving Annuity Certificates, National Defense Gold Bonds, 1980, Special Bearer Bonds, 1991, etc.)
- b. Interest received from Non resident Indians from Notified Bonds(i.e. Bonds, NRI Bonds (Second Series) issued by the State Bank of India.
- c. Interest on National Relief Bonds/ Debenture of Public Sector Company
- d. Interest payable to any foreign Bank performing central banking functions outside India.
- e. Interest on deposit made by a retired government employee or an employee of public sector Company, out of money due to him on account of retirement. Interest on securities held by the Welfare commissioner, Bhopal Gas victims, Bhopal or interest on deposit on benefit of the Victims of the Bhopal gas disaster held in such account with the RBI or with the Public sector Bank as the central government may, by notification in the official gazette,specify in this behalf.
- f. Interest on Gold Deposits Bonds under the Gold Deposit Scheme 1999. Also Interest on Gold Deposit Bonds issued under the Gold Monetization Scheme 2015 shall be exempt from tax
- g. Interest on Notified Bonds issued by local authority or by State Pooled Finance Entity(applicable from the A.Y.2008-09).
- h. Interest on Post Office Savings Account upto 3500 p.a. for an individual and upto 7000 p.a. in case of Joint account
- i. Interest on bonds issued by local authority
- j. Interest on bonds issued by state pooled finance entity which is setup as per guidelines & notified by central Government.

3) For taxability of interest on securities, due date of interest is important as interest accrues on due date.

4) TDS will be deducted @ 10% on interest on securities. However, no TDS will be deducted on Government Securities.

5) Any income by way of interest payable to a non-resident by a unit located in an

International Financial Services Centre (IFSC) in respect of monies borrowed by it on or after 1<sup>st</sup> Sept. 2019 is exempt.

### 2.4) Advance Forfeited

Wef A Y 2015-16 any sum of money received as advance or otherwise in the course of negotiations for transfer of capital asset shall be taxable under the head Income from other sources if the following two conditions are satisfied:

- The negotiations do not result in the transfer of capital asset.
- Advance money is forfeited.

upto AY 14-15 →

w.e.f. AY 15-16 →

### 2.5) Interest on Compensation or enhanced compensation

Compensation received on transfer of an asset is taxable under capital gains.

Interest received on enhanced compensation or compensation received on compulsory Acquisition will be taxable in the year of receipt irrespective of the method of accounting followed by the assessee.

50% of such income is allowable expenditure u/s 57 and no other expenditure is allowable.

### 2.6) Family Pension

“Family Pension” means a regular monthly amount payable by the employer to a person Belonging to the family of an employee in the event of his death.

Family Pension will be taxable under the head income from other sources. It cannot be taxed Under Salaries as there is no employer and employee relationship.

A Standard deduction is allowable = 15000 or 1/3rd of total pension whichever is lesser.

E.g. Mrs. X receives family pension of Rs 120000. Calculate the tax implication.

### 2.7) Rental Income of Plant and Machinery

Rental Income of Plant and Machinery can be taxed under Income from other sources if not Taxed under PGBP. If the income is taxed under IOS then the expenses like repairs, Insurance And depreciation relating to the machinery shall be allowable from IOS. Also if the building is given on rent along with the other assets and the letting out is inseparable then it shall be taxable under PGBP or IOS.

Rent of P/M →

Rent of HP →

Rent of HP + Amenities ┌→ separable →  
└→ inseparable →

**2-8) Other incomes like Royalty, Agricultural income from outside India shall be taxable under this Head. Also any income not taxable under any other heads of income shall be taxable under IOS.**

**2-9) Gifts/ Receipts without consideration/ Receipts for inadequate consideration** **Sec-56(2)(x)** Sec 56(2)(x) includes any property, movable or immovable, received without consideration or inadequate consideration by any person during the year as income under the head 'Income from Other Sources'.

Gift in cash	Gift of immovable Property	Gift of movable property	Inadequate purchase of immovable property	Inadequate purchase of movable Property
1) Exemption limit of Rs. 50,000 for all transactions in a Year	Exemption limit of Rs. 50,000 for each transaction	Exemption limit Of Rs. 50,000 for all transactions in a year	Exemption limit of Rs. 50,000 for each transaction	Exemption limit of Rs. 50,000 for all transactions in a year
2) Gift in cash or Bank	Land/Building	Shares, securities, jewellery, bullion, paintings, drawings, work of art, sculptures, archeological Collections, ★	Land/Building	Shares, securities, jewellery, bullion, paintings, drawings, work of art, sculptures, Archeological Collections, ★
3) Total cash / cheque received	Consider the stamp valuation	Consider the FMV	Consider the stamp valuation to calculate the benefit	Consider the FMV to find the Benefit
4) There are some exceptions for all 5 cases refer Point no. 5				

### Notes:

1. For inadequate consideration difference upto 10% between actual consideration and stamp duty shall be ignored or 50,000 whichever is higher shall be ignored.
2. In case of immovable property, if date of agreement fixing the consideration and date of registration are not the same then stamp valuation on the agreement date will be considered
3. The above point will be applicable only if consideration or part consideration is received in Any mode other than cash before the date of agreement. The consideration can be paid

By an account payee cheque , account payee demand draft, use of Electronic clearing system, or any other electronic mode as may be prescribed( w e f AY 20-21)

**Any sum of money or property received from the following is exempt from tax**

i. Relative

ii. On the occasion of marriage of the individual

iii. Received by way of will/inheritance.

iv. Received in contemplation of death of the payer.

v. Received from local Authority.

vi. Received from Charitable institute registered under Sec-12AA or 12AB w e f 1/6/2020 ie AY 21-22.

vii. Received from any Fund Foundation, university, other educational institutions, hospitals, any trust or institution referred to Sec10 (23C).

viii. Shares received by an individual or HUF as a consequence of amalgamation or de-merger. (w e f AY 17-18)

ix. Any transfer between wholly owned subsidiary company and its holding company shall not be taxable u/s 56(2)(x), provided the subsidiary and holding company are Indian Companies

X Individual-----> any sum or any property ----->Trust  
(establishment solely for the benefit of relative)

**xi. Medical Exp. COVID**

Any Person  $\xrightarrow[\text{Covered Medical Expenses}]{\text{Provides Help}}$  Any Person

a) Covered in exception

b) Not taxable u/s 56(2)(x)

c) Conditions :

- Covid + ve Report
- treatment to be within 6m of being covid + ve
- doctors certificate.

**Death of person due to COVID**

a. Employer  $\longrightarrow$  gives money

Family - not taxable u/s 56(2)(x)

b. Any person  $\longrightarrow$  gives money

Family - not taxable upto 10,00,000 u/s 56(2)(x)

**Condition :**

- Death of person due covid related issues
- Death within 6m from covid + ve
- Covid + ve report
- Doctors certificate / death certificate, mentioning the reason of death.



The definition of the term “**relative**” for this purpose is as under:

- a) spouse of individual;
- b) brother of the individual;
- c) sister of the individual;
- d) brother of the spouse of the individual;
- e) sister of the spouse of the individual;
- f) brother of the father of the individual;
- g) brother of the mother of the individual;
- h) sister of the father of the individual;
- i) sister of the mother of the individual;
- j) lineal ascendant of the individual (say, grandfather);
- k) lineal descendant of the individual (say, son, grandson and daughter);
- l) lineal ascendant of the spouse of the individual;
- m) lineal descendant of the spouse of the individual; and
- n) Wife or husband of the relative listed at serial numbers (b) to (m).

**Note:** In case of HUF member of HUF will be treated as its relative. Hence gift received by HUF From its member shall be exempt from tax.

### 2.10 Shares issued at premium by a company in which public are not substantially interested:

If two conditions are satisfied

- a) Shares issued at premium **AND** b) Issue price is more than the FMV.

**Then, Income = Issue price - FMV**

This provision is applicable only to a company in which public are not substantially interested.

**Example:**

Face value	Issue price	FMV	IOS
100	120	110	
100	130	110	
100	105	110	
100	90	80	
100	140	150	

Wef AY 20-21. This provision will not be applicable where the consideration for issue of shares is received (1) by a venture capital undertaking from a venture capital company or a venture capital fund or (2) by a company from a class or classes of persons as may be notified by the Central Government in this behalf.

Wef AY20-21 this provision will not apply where the consideration for issue of shares is

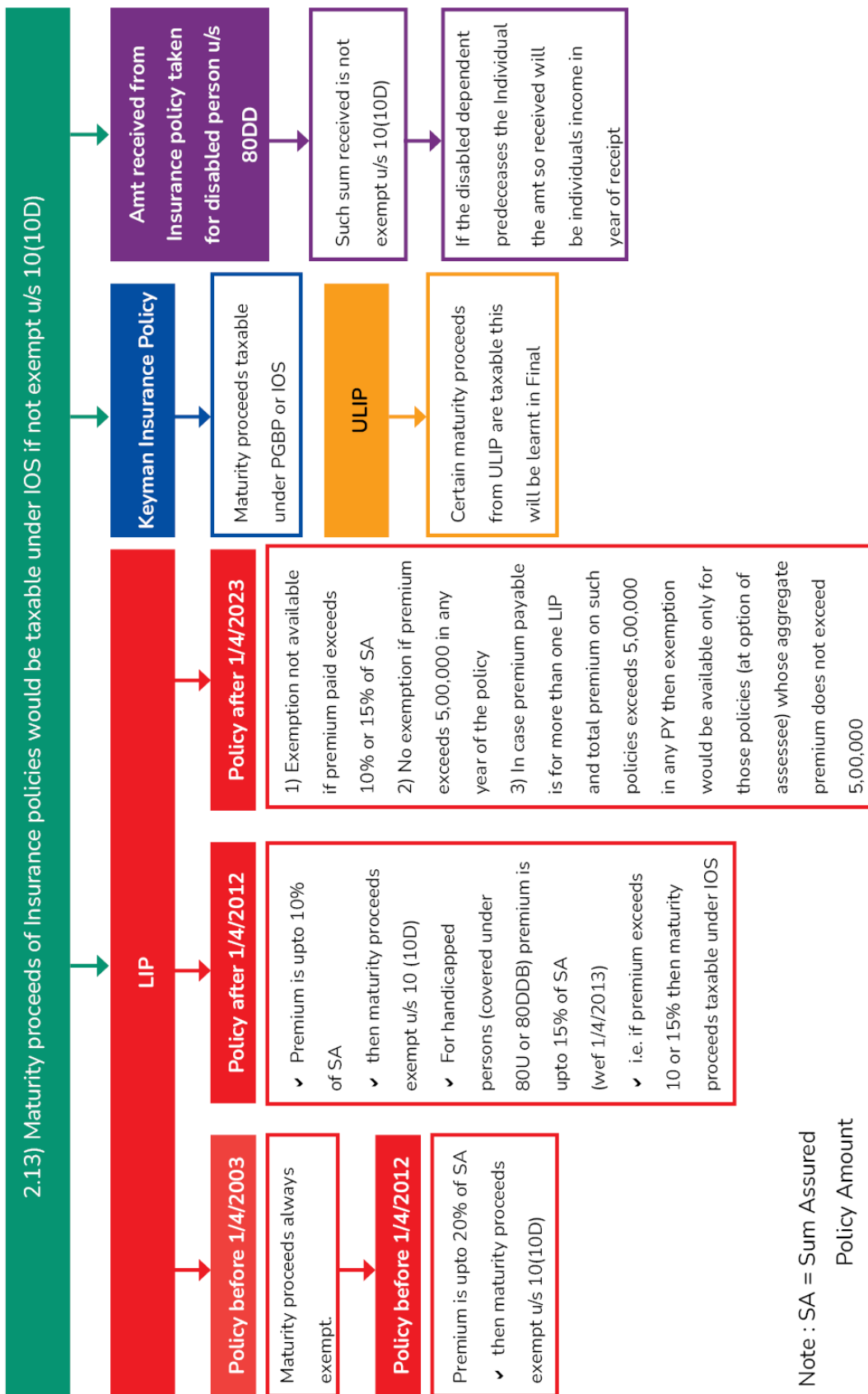
received by a specified fund also (at final level)

Also exemption is given in point number 2 above on fulfillment of conditions to a company. If the company does not fulfill these conditions then the consideration in excess of FMV will be taxable under 105

2-11) 56(2)(xi)- w.e.F AY 19-20 any compensation or other payments by whatever name called in connection with termination of his employment or the notification of the terms and condition will be taxable under 105. It will be taxed in the year of receipt.

2-12) On Net winnings from online games taxable under 105

1. Net winnings from any online games would be taxed @ 30% plus surcharge if applicable plus 4% HEC u/s 115BBJ
2. No expenditure or allowance can be allowed from such income.
3. Deduction under Chapter VI-A is not allowable from such income.
4. No BEL
5. Adjustment of unexhausted basic exemption limit is also not permitted against such income.
6. Meaning of online games: A game that is offered on the internet and is accessible by a user through a computer resource including any telecommunication device



Note : SA = Sum Assured  
Policy Amount

2) The maturity proceeds would be taxable under IOS

3) If the maturity proceeds are received on death of policy holder then the total proceeds will be exempt without applying any condition of 10% / 15% / 5L / 20%.

### Concept 3: Deductible expenses(Sec. 57)

- 1) In respect of interest income any reasonable expenditure incurred by way of commission or remuneration to a banker for realization of such income is deductible.
- 2) In respect of dividend income or income from units of mutual fund only interest expenditure shall be allowable subject to maximum of 20%.
- 3) In respect of any such sum collected from employees towards the welfare fund contribution, deduction shall be allowed to the extent the amount is remitted within the relevant due date under respective Acts.
- 4) In respect of family pension a sum equal to 33-1/3% of the pension or Rs.15000/- whichever is less, shall be allowed as deduction.
- 5) In respect of income earned by way of lease rental on letting of machinery, plant and Furniture with or without building, the following shall be deducted: a) Repairs, b) Insurance, And c) Depreciation.
- 6) Any other expenditure incurred by the assessee not being capital expenditure but laid out or expended wholly or exclusively for the purpose of making or earning any income chargeable under this head of income can be claimed.
- 7) In case of interest received on compensation or on enhanced compensation, a deduction Equal to 50% of such income shall be allowed. No other expenditure shall be allowed under any other clause of this section.

### Concept 4: Disallowable expenses(Sec. 58)

**Amount not deductible under Sec.58:-**The following are not deductible by virtue of Sec 58 .

1. **Personal Expenses [Sec.58 (1) (a) (i)]:-**Any personal expenses of the assessee are not deductible.
2. **Interest [Sec.58 (1) (a) (ii)]:-** Any interest chargeable under the Act which is payable Outside India on which tax has not been deducted at source is not deductible.
3. **Salary [Sec.58(1)(a)(iii)] :-** Any payment chargeable under the head "salaries" and payable Outside India is not deductible if tax has not been paid or deducted there from.
4. **Amount specified by section 40A [Sec.58(2)]:-**Any amount specified by sec.40A is not Deductible while calculating income under the head "Income from other Sources" i.e., payment to relative and payment for expenses exceeding 10,000 in cash.
5. **Expenditure in respect of winning from lottery [Sec.58 (4)]:-**No deduction shall be allowed under any provision of the Act in computing the income by way of any winnings from lotteries, crossword puzzles, races including horse races. However, in respect of the activity of owning and maintaining race horses, expenses incurred shall be allowed.
6. **Payments made without deducting TDS/ TDS has not been paid to resident there will be a 30% disallowance (w.e.f. AY 18-19)**

### Concept 5: Deemed Income (Sec. 59)

Any amount received or benefit derived in respect of expenditure incurred or loss or trading Liability allowed as deduction shall be deemed as income in the year in which the amount is received or the benefit is accrued. This provision is similar to that of sec. 41(1) under the head "Profit and Gains of business and profession"

### Questions for Practice

1. X receives the following gifts during the previous year 2023-24

- a) On the occasion of marriage of X, he gets Rs. 2,90,000 as gift on April 2, 2023 (out of which Rs. 2,00,000 is received from friends of X and Mrs. X and remaining amount is received from close relatives of X and Mrs. X).
- b) On June 22, 2023, he gets a gift of Rs. 23,000 from C, who is cousin of his father.
- c) On August 18, 2023, he gets a gift of Rs. 15,000 from D, who is elder brother of his grandfather.
- d) A computer received from his employer (it was purchased for Rs. 65,000 by the employer on May 1, 2023 and given as gift to X on October 20, 2023).
- e) On November 2, 2023 X purchases a house property from his friend D for Rs. 65,000 (stamp duty value of the property is Rs. 10, 00,000).
- f) On November 30, 2023 X gets a gift of a plot of land from his grandfather (stamp duty value is Rs. 15, 00,000).
- g) On December 30, 2023 X gets by gift a commercial flat from the elder brother of his father - (stamp duty value is Rs. 25,00,000).
- h) On January 6, 2024, he gets a gift of Rs. 2,00,000 (cash gift of Rs. 25,000 and gift at a work of art whose market value is Rs. 1,75,000) from a notified public charitable institution.
- i) X receives on January 11, 2024 a house property under will of a person known to him. The stamp duty value is Rs. 15, 40,000.
- j) On January 20, 2024 he gets a wrist watch by gift (fair market value: Rs. 40,000) from his friend B.
- k) On January 25, 2024, he purchases a work of art for Rs. 16, 00,000 from an exhibition in New York (the fair market value of the work of art on the date of purchase is Rs. 17, 00,000).
- l) On February 1, 2024, he purchases a commercial property for Rs. 8,00,000 (stamp duty value is Rs. 9,60,000)
- m) On February 5, 2024 he gets a birthday gift a gold chain (FMV: Rs. 11,000) from his friend.
- n) On February 10, 2024, X gets by way of gift a plot of land in Pune from a partnership firm. The partnership firm has only two partners father of X and Mrs. X. The stamp duty value of the plot of land is Rs. 19,00,000

- o) On February 16, 2024, X purchases 500 shares in Tata Chemicals from his friend D at Rs. 90 per share (outside stock exchange). The lowest market quotation in the Bombay Stock Exchange and the National Stock Exchange on the date of purchase is Rs. 300 and 310 respectively.
- p) On March 25, 2024, X gets a small plot of land by way of gift from a cousin of Mrs. X (stamp duty value is Rs. 44,000).
- q) Cash gift of Rs. 30,000 from non-resident friend.
- r) Purchase of second hand car for 3 lakhs FMV 3, 50,000.

Compute the amount chargeable to tax in the hands of X under the head "income from other sources" for the assessment year 2024-25

2. From the following particulars of Pankaj for the previous year ended 31<sup>st</sup> March, 2024, compute the income chargeable under the head "Income from other sources":

Sr. No.	Particulars	Rs.
(i)	Directors fee from a company	10,000
(ii)	Interest on bank deposits	3,000
(iii)	Income from undisclosed source	12,000
(iv)	Winnings from lotteries (Net)	35,000
(v)	Royalty on a book written by him	9,000
(vi)	Lectures in seminars	5,000
(vii)	Interest on loan given to a relative	7,000
(viii)	Interest on debentures of a company (listed in a exchange) net of taxes	3,600
(ix)	Interest on Post Office Savings Bank Account	500
(x)	Interest on Government Securities	2,200
(xi)	Interest on Monthly Income Scheme of Post Office	33,000

He paid Rs. 1,000 for typing the manuscript of book written by him.

3. Examine under which heads following heads are taxable (Module question)

	Particulars	Head of Income	KYN
i.	Rental income in case of property held as stock in trade for 3 years		
ii.	Salary received by partner from his partnership firm		
iii.	Rental income of machinery		
iv.	Winnings from lotteries by a person having the same business activity		
v.	Salaries payable to a Member of Parliament		

vi.	<i>Receipts without consideration</i>		
vii.	<i>In case of retirement, interest on employee's contribution if provident fund is unrecognized</i>		
viii.	<i>Rental Income in case of a person engaged in the business of letting out of properties</i>		

4. Examine whether the following are chargeable to tax and the amount liable to tax:

(i) A sum of Rs. 1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.

(ii) Interest on enhanced compensation of Rs.96,000 received on 12-3-2024 for acquisition of urban land ,of which 40% relates to P.Y.2022-23.(Module Question)

5. On 10.10.2023, Mr.Govind (a bank employee) received Rs. 5, 00,000 towards interest on enhanced compensation from state Government in respect of compulsory acquisition of his land effected during the financial year 2015-16.

Out of this interest, Rs. 1,50,000 relates to the financial year 2016-17; Rs.1,65,000 to the financial year 2017-18; and Rs. 1,85,000 to the financial year 2018-19. He incurred Rs.50,000 by way of legal expenses to receive the interest on such enhanced compensation. How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2024-25? (Module question3.524 3) (HW)

6. Examine the following transactions in the context of Income - tax Act, 1961:

(i) Mr.B transferred 500 shares of R (P) Ltd. To M/s. B Co. (P) Ltd. On 10.10.2023 for Rs.3,00,000 when the market price was Rs. 5,00,000. The indexed cost of acquisition of shares for Mr.B was computed atRs. 4, 45,000.The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in the hands of Mr. B and M/s.B Co. (P) Ltd. because of the abovesaid transaction.

(ii) Mr. Chezian is employed in a company with taxable salary income of Rs. 5, 00,000. He received a sum of Rs1,00,000 from Atma Charitable Trust (registered under section 12AB) by account payee cheque in December 2023 for meeting his medical expenses.

Is the sum of money so received from the trust chargeable to tax in the hands of Mr. Chezian?

(Module question3.525 5)

### *Budget Quotes - 7<sup>th</sup> February 2023*

*It is proposed to provide that where aggregate of premium for life insurance policies (other than ULIP) issued on or after 1st April, 2023 is above ` 5 lakh, income from only those policies with aggregate premium up to ` 5 lakh shall be exempt. This will not affect the tax exemption provided to the amount received on the death of person insured. It will also not affect insurance policies issued till 31st March, 2023.*

*-Nirmala Sitharaman- Nirmala Sitharaman*





## Contents of Chapter *[Section 10(1)]*

C1-- What is Agricultural Income

C2--Agricultural Income- Partial integration scheme:

C3-- loss from agricultural Income

C4-- What is the tax treatment of income which is partially agricultural and partially from business

C5:- Indirect connection with land

### Concept 1: What is Agricultural Income

#### 1.1) Agricultural Income

Agricultural Income in India is exempt from tax. Agricultural income from outside India is Taxable under IOS. However agricultural income is considered in some cases for tax calculation i.e. the partial integration scheme.

#### 1.2) Definition of Agricultural income:

**Agricultural income means-**

- a) **Any rent or revenue derived from land which is situated in India and is used for agricultural purposes** [section 2(1A)(a)]. It is essential that the land used for agricultural purposes should be situated in India. Hence if the land is situated outside India and used for Agricultural purposes the income will be taxable under the head Income from other sources.
- b) **Any income derived from such land by agricultural operations including processing of the agricultural product, raised or received as rent in kind so as to render it fit for the market or sale of such product**[sec.2(1A)(b)] For e.g. tobacco leaves are ordinarily dried to make them suitable for sale, income from such an activity would be agricultural income.
- c) **Income attributable to a farm house subject to certain condition** [Sec. 2(1A)(c)]. The building should be in immediate vicinity of land (which is used for agricultural purposes). It should be occupied by the cultivator or receiver of rent in kind. It should be used as a dwelling house or a store house and should be assessed to land revenue or should be situated outside the urban areas.

d) With effect from the assessment year 2009-10, **any income derived from saplings or seedlings grown in a nursery** shall be deemed to be agricultural income.

**Note:** Any salary, interest and share of profit received from the firm out of its agricultural income Will also be treated as agricultural income in the hands of the partners. However share of profit from the firm is exempt in the hands of the partners. If the same is received out of non agricultural income of the firm, it shall be treated as non agricultural income in the hands of the partners also.

**1.3) Some instances of non agricultural income are -** Income from fisheries, poultry farming. Making of butter and cheese, interest received on arrears of rent for agricultural land, dividend received from the shareholder from the company and the company has agricultural income.

**1.4) Some instances of agricultural income are -** income from growing flowers and creepers, profit on sale of standing crops, rent for agricultural land received from sub tenants.

**Concept 2: Agricultural income- Partial integration scheme:**

**2.1) Agricultural income is added only for tax calculation if:**

- 1) Assessee is Individual and HUF, body of individual and association of persons.
- 2) Non agricultural income exceeds basic exemption limit.
- 3) Agricultural income exceeds Rs.5,000

For Tax calculation:-

Step1: Find out net agricultural income.

Step2: Calculate tax on agricultural + Non-agricultural income

Step3: Calculate tax on agricultural income + Basic exemption limit.

Step4: Tax before surcharge and education cess = Step 2 - Step 3

**Concept 3: Loss from Agricultural Income**

**3.1)** If there is a loss arising from any source of agricultural income then such loss can be set off Only against agricultural income from any other source for that year. If the loss could not be set off it shall be carried forward for 8 subsequent assessment years and set off only against agricultural income.

**Concept 4:** What is the tax treatment of income which is partially agricultural and partially from business [7,7A 7B, and 8](Composite Business)

**4.1)** For disintegrating a composite business income which is partly agricultural and partly non-agricultural, the following rules are applicable-

Income	Non- Agriculture Income	Agriculture Income	Income-tax Rules
1. Growing and manufacturing tea in India	40%	60%	Rules 8
2. Sales and centrifuged latex/latex based crepes (such as pale Latex crepe)/brown crepes or technically specified block rubbers manufactured/processed from field latex or coagulum obtained from rubber plants grown by the seller in India.	35%	65%	Rules 7A
3. Sale of coffee grown and cured by seller	25%	75%	Rules 7B(1)
4. Sale of coffee grown, cured, roasted and grounded by seller in India with/without mixing chicory or other flavorings ingredients.	40%	60%	Rules 7B(1A)

**4.2) Any other case:** In case of a composite business which is partly agricultural and partly non agricultural. The raw material for the non agricultural income is the agricultural produce then fair market value of the produce shall be taken as the cost of the raw material for calculating the business income. The Agricultural income is calculated on transfer of the agricultural produce. The fair market value shall be taken as the sale consideration.

**Concept 5:** Indirect Connection with Land

### Indirect Connection With Land

We have seen above that agricultural income is exempt, whether it is received by the tiller or the landlord. However, non-agricultural income does not become agricultural merely on account of its indirect connection with the land. The following examples will illustrate the above point.

**Example 1:** A rural society has as its principal business the selling on behalf of its member societies, butter made by these societies from cream sold to them by farmers. The making of butter was a factory process separated from the farm.

*The butter resulting from the factory operations separated from the farm was not an agricultural product.*

*Example 2: X was the managing agent of a company. He was entitled for a commission at the rate of 10% p.a. on the annual net profits of the company. A part of the company's income was agricultural income. X claimed that since his remuneration was calculated with reference to income of the company, part of which was agricultural income, such part of the commission as was proportionate to the agricultural income was exempt from income tax.*

*Since, X received remuneration under a contract for personal service calculated on the amount of profits earned by the company; such remuneration does not constitute agricultural income.*

*Example 3: Y owned 100 acres of agricultural land, a part of which was used as pasture for cows. The lands were purely maintained for manuring and other purposes connected with agriculture and only the surplus milk after satisfying the assessee's needs was sold. The question arose whether income from such sale of milk was agricultural income.*

*The regularity with which the sales of milk were effected and quantity of milk sold showed that the assessee carried on regular business of producing milk and selling it as a commercial proposition. Hence, it was not agricultural income.*

*Example 4: In regard to forest trees of spontaneous growth which grow on the soil unaided by any human skill and labour there is no cultivation of the soil at all. Even though operations in the nature of forestry operations performed by the assessee may have the effect of nursing and fostering the growth of such forest trees, it cannot constitute agricultural operations.*

*Income from the sale of such forest trees of spontaneous growth does not, therefore, constitute agricultural income.*

*Example 5: Suppose A sells agricultural land situated in New Delhi for ₹ 10 lakhs and makes a surplus of ₹ 8 lakhs over its cost of acquisition. This surplus will not constitute agricultural income exempt under section 10(1) and will be taxable under section 45.*

## Some Examples of Agri / Non-Agri Income

### Agricultural income

1. Income derived from the sale of seeds.
2. Income from growing of flowers and creepers.
3. Rent received from land used for grazing of cattle required for agricultural activities.
4. Income from growing of bamboo.

### Non-Agricultural Income

1. Income from breeding of livestock.
2. Income from poultry farming.
3. Income from fisheries.
4. Income from dairy farming.

### Questions for Practice

1. Mr. B grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for Rs. 10 lacs, and the cost of cultivation of such sugarcane is Rs. 5 lacs. The cost of cultivation of such sugarcane (70%) is Rs. 14 lacs and the market value of the same is Rs. 22 lacs. After incurring Rs. 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for Rs. 25 lacs. Compute B's business income and agricultural income. (Module question from Incomes which do not form part of total income)

2. Y is engaged in the business of growing and manufacturing tea in India. The following data is available for the previous year 2023-24. Calculate the tax liability. What will be the tax if assessee is a partnership firm?

Particulars	Rs. In Lakh
Sales turnover of Tea	45
Less:	
Expenses on growing tea leaves	20
Manufacturing expenses	15
Income	10

## 7. Agriculture Income

3. From the following information, find out whether X (age: 66 years) is liable to pay income tax for the assessment year 2024-25.

Particulars	Rs.
Agricultural income from a land in Jaipur	10,00,000
Expenses incurred for earning agricultural income	1,20,000
Non agricultural income for the year ending March 31,2023	2,10,000
Contribution to PPF	35,000

Assume in the above problem, Non Agricultural Income is Rs. 8,10,000 and Calculate Tax Liability.

4. X (age: 30 years) and Mrs. Y (age 32 years) are two equal partners in XY and Co., a partnership firm. From the following data find out the net income and the tax liability of the firm and partners for the Assessment Year 2024-25.

Firm:

Particulars	Rs.
Business income from agricultural	1,70,000
Less:	
Salary to X and Mrs. Y (equal)	24,000
Interest to X and Mrs. Y at the rate of 12%(equal)	10,000
Income from agriculture (shared equally by X and Mrs. Y)	1,36,000
Income from Business	
Business Income	1,60,000
Less: Salary to X and Mrs. Y	20,000
Business Income	1,40,000

Partners

	XR's	Mrs. YR's
Salary from Z Ltd (Computed)	90,000	-
Interest on Debentures of A Ltd. ( A has distributed interest out of agricultural income)	20,000	15,000
Long Term Capital Gains	35,000	50,000
Winnings from lottery	60,000	90,000
Interest on fixed deposit	93,000	38,000
Agricultural Business Income from outside India	300,000	10,20,000
Agricultural business income in India (personal)	30,000	45,000

## 7. Agriculture Income

PPF contribution (out of non-agricultural income)	20,000	10,000
PPF contribution ( out of agricultural income)	40,000	40,000

5. Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31-3-2024: (Module Question)

No.	Particulars	Rs.
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in, TamilNadu.	1,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income and agricultural income of Miss Vivitha for the assessment year 2024-25

6. Mr. Tenzingh is engaged in composite business of growing and curing (further processing) coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31-3-2024 are given below.

Particulars	Rs.
Opening balance of car (only asset in the block) as on 1-4-2023 (i.e., WDV as on 31-3-2023 (-) depreciation for PY 2022-23)	3,00,000
Opening balance of machinery as on 1-4-2023 (ie., WDV as on 31-3-2023 (-) depreciation for PY 2022-23)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenses for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use ;  
Disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are Rs.50,000. The machines were used in coffee curing business operations.

Compute the income arising from the above activities for the AY 24-25 (in module covered under PGBP)

### *Budget Quotes - 1st February, 2022*

*Railways will develop new products and efficient logistics services for small farmers and Small and Medium Enterprises, besides taking the lead in integration of Postal and Railways networks to provide seamless solutions for movement of parcels.*

*-Nirmala Sitharaman*





## Contents of Chapter (Section 5 to 9)

C1. - Introduction

C2.- Residential status of various assessee

C3.- Nature of Income - Indian/Foreign

C4.- Taxability of Income in India

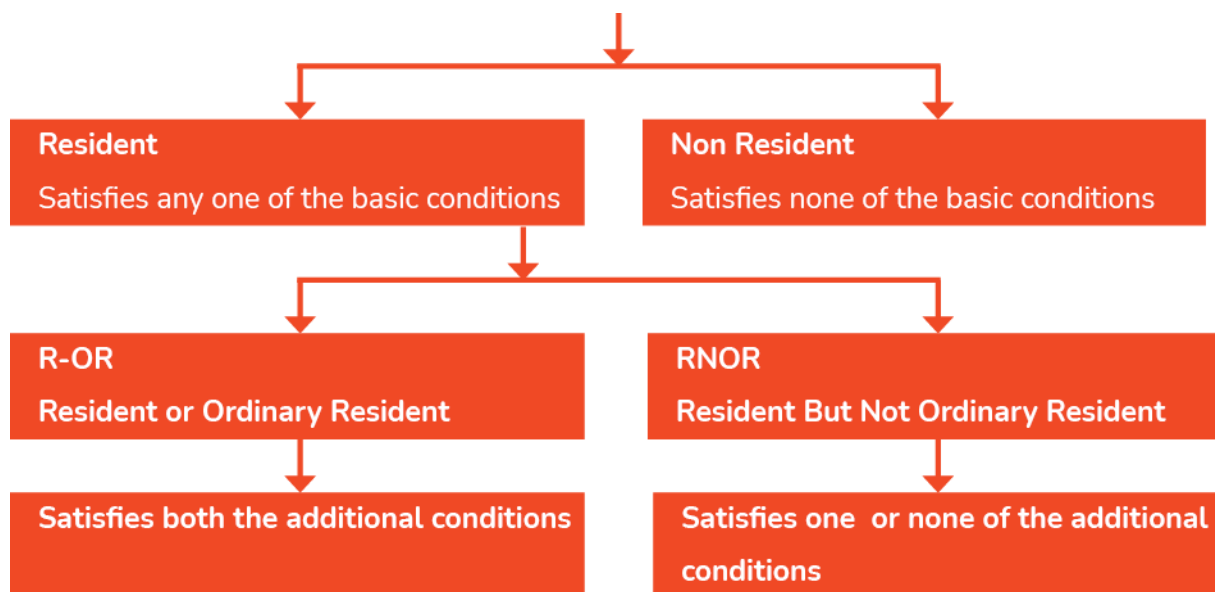
### Concept 1: Introduction

1.1) Tax incidence depends upon the residential status of the assessee and whether the Income earned is Indian Income or Foreign Income.

1.2) Residential status of the assessee can change every year depending upon the conditions satisfied by the assessee every year and hence it is determined for each previous year.

### Concept 2: Residential Status of various assessee

#### 2.1) Residential status of an individual



*It is not dependent on citizenship or nationality.*

#### 2.2) Residential status on the basis of number of days of stay in India for Individuals

##### 1) Basic condition:

1. In India in the PY for a **period of 182 days or more.**

2. In India in the PY for **60 days or more and 365 days or more in last 4 years.**

## 8. Residence and the Scope Of Total Income

*The aforesaid basic conditions have the following exceptions - Exception I*

a. Where an *Indian Citizen leaves India* during the previous year, for the purpose of employment outside India or being a member of the crew of an Indian ship, his stay during the previous year has to be 182 days or more (instead of 60 days or more).

b. Where an Indian Citizen or a PIO who, being outside India, comes on a visit to India during the previous year, his stay during the previous year has to be for a period of 182 Days or more (instead of 60 days or more).

1. In India in the PY for a *period of 182 days or more*.

2. In India in the PY for ~~60~~ *182 days or more and 365 days or more in last 4 years*.

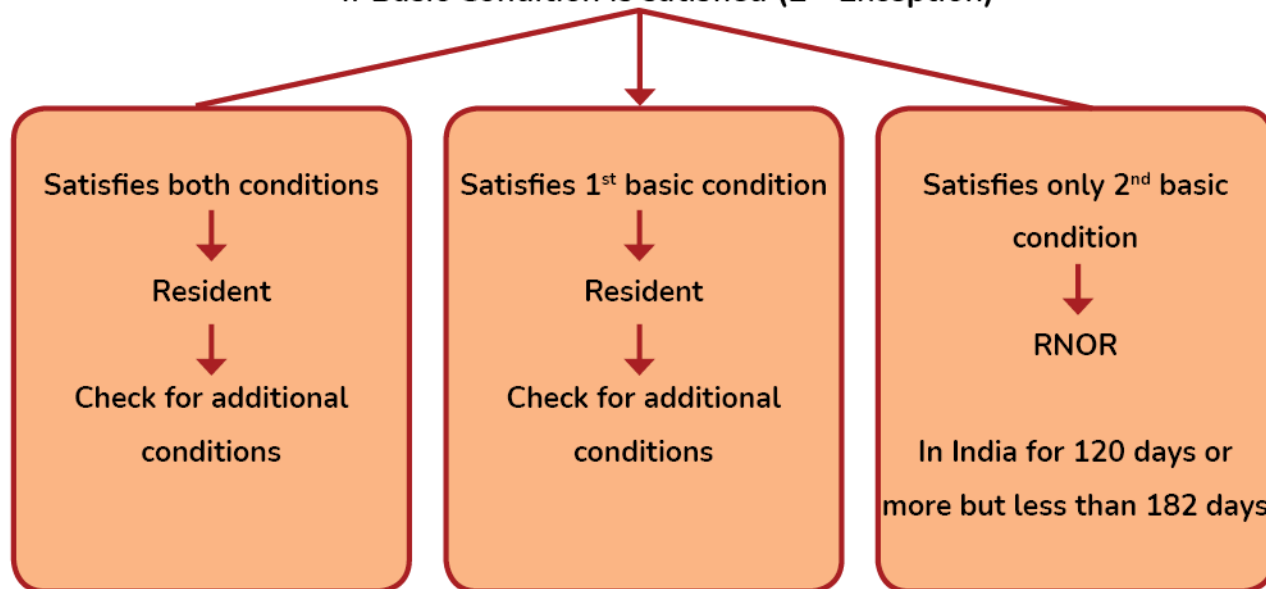
### Exception II

3. However Indian citizen or PIO who being outside India who comes to visit India during the PY and having total income, other than the income from foreign sources exceeding 15 lakhs during PY the will be treated as resident in India if -

1. In India in the PY for a *period of 182 days or more*.

2. In India in the PY for ~~60~~ *120 days or more and 365 days or more in last 4 years*.

If Basic Condition is satisfied (2<sup>nd</sup> Exception)



**Note:-**

1) *Income of Foreign Sources* means "Income which accrues or arises outside India and which is not deemed to accrue or arise in India." However, it will not include income from Business controlled in India or Profession set up in India.

2) A person is said to be of Indian Origin, if he or either of his parents or any of his

## 8. Residence and the Scope Of Total Income

grandparents was born in undivided India (i.e. before 15th August 1947 or to up to 14th August 1947) (Sec.115C)

### 2.3) Additional conditions for all:

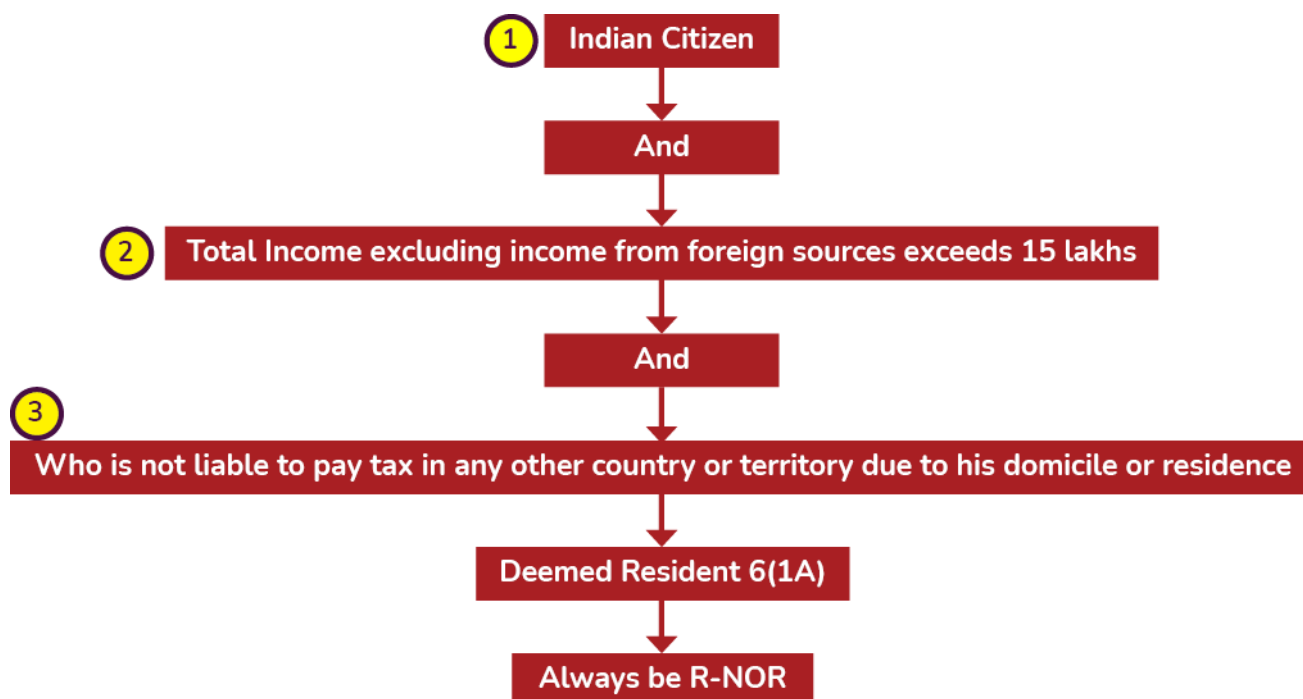
1. He has been resident in India in at least 2 out of 10 previous year (according to the basic Condition noted above) immediately preceding the relevant previous years.
2. He has been in India for a period of 730 days or more during 7 years immediately preceding The relevant previous years.

Note:- The term stay in India includes the following-

- (i) Stay in territorial waters of India (ship or boat moored in such waters)
- (ii) not necessary that stay should be continuous, active, usual place of residence, business, employment
- (iii) For the purpose of counting days - both date of departure as well as date of arrival are considered.
- (iv) Residence of individual for IT purpose has nothing to do with citizenship, domicile or place of birth. He can be resident in one or more countries though he may have 1 domicile only.

## 8. Residence and the Scope Of Total Income

### 2.4) WEF AY 21-22 Finance Act, 2020



**Note :** Only Indian citizen can be deemed resident. PIO cannot be a deemed resident. Stay in India not necessary for being a deemed R.

However this provision would not apply in case of an individual who is resident in India in the PY u/s 6(1)

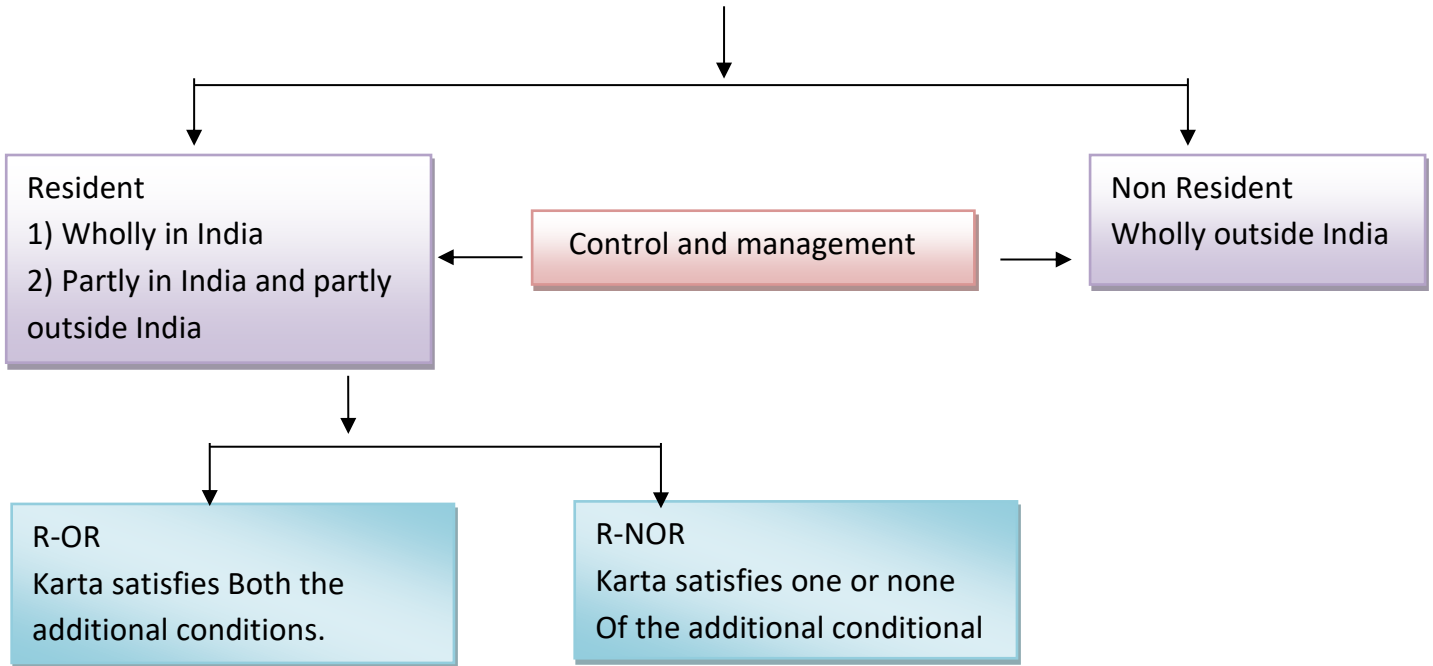
### 2.5) How to determine period of stay in India for an Indian citizen, being a crew member?

In case of foreign bound ships where the destination of the voyage is outside India, the period Or periods of stay in India shall, in respect of an eligible voyage, not include the following period:

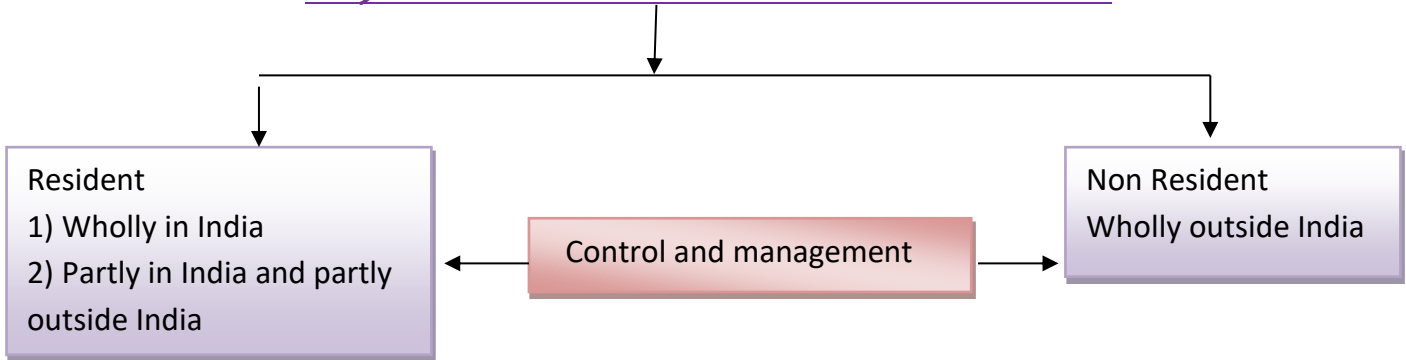
Period commencing from		Period ending on
The date entered into the continuous Discharge Certificate in respect of joining the ship by the said individual for the eligible voyage	And	The date entered into the continuous Discharge Certificate in respect of signing off by that individual from the ship in respect of such voyage

## 8. Residence and the Scope Of Total Income

### 2.6) Residential status of HUF



### 2.7) Residential status of AOP/BOI/AJP/Firm/LLP



#### **Note:**

- 1) Any person falling within this group is 'Resident' in India in any previous year, where during the previous year the control and management of its affairs are wholly or partly situated in India.
- 2) The place of control and management is the place where the head sits or where powers are Situated.

## 8. Residence and the Scope Of Total Income

### 2.10) COMPANY -Sec 6(3):

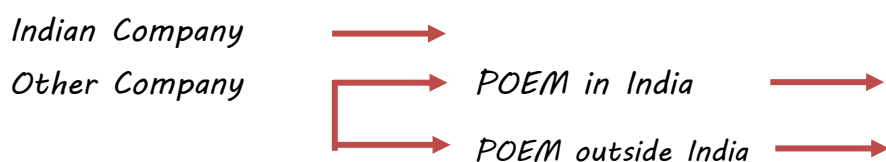
May 16

A company is treated 'Resident' in India

a. If it is an Indian Company i.e Indian company will always be resident.

b. If it is not an Indian company and its place of effective management in that year is in India. Applicable from A.Y. 17-18

Place of effective management has been defined 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.



OECD( Organization for Economic and Co-operation Development) has set out the following principles on POEM The POEM will ordinarily be the place where the most senior person or group of persons (eg board of directors) makes its decisions, the place where the actions to be taken by the entity as a whole are determined.

### Concept 3: Nature of Income - Indian/Foreign

#### 3.1) INDIAN INCOME

Any of the following three is an Indian Income-

1. If income is received (or deemed to be received) in India during the previous year and at the same time it accrues (or arises or is deemed to accrue or arise) in India during the previous year.
2. If income is received (or deemed to be received) in India during the previous year but accrues (or arises) outside India during the previous year.
3. If income is received outside India during the previous year but it accrues (or arises or is deemed to accrue or arise) in India during previous year.

#### 3.2) "FOREIGN INCOME"

1. If income is not received (or not deemed to be received) in India; and
2. Income does not accrue or arise (or does not deemed to accrue or arise) in India.

#### 3.3) INCOME RECEIVED OR DEEMED TO BE RECEIVED IN INDIA [Sec.7]

### 1. Income received in India:-

- i) Any income received in India is liable to tax irrespective of residential status of the assessee and place of accrual of income.
- ii) Receipt means the first receipt in India, remittance to India after accrual would not amount to receipt.

### 2. Income Deemed to be received in India:-

It is not necessary that an income should be actually received in India in order to attract tax liability. By fiction of Law, receipt outside India may be treated as deemed to accrue or arise in India. Income deemed to be received in India is also included in the total income of the assessee.

#### Deemed Receipt:-

- 1) Annual accretion to recognized provident fund in excess of 12% of employer's contribution.
- 2) Interest credited to recognized provident fund found in excess of rate declared by Government i.e. 9.5%
- 3) Contribution made by employer towards pension scheme referred to in section 80CCD.
- 4) Transfer of balance from unrecognized to recognized provident fund.
- 5) Tax deduction at source (TDS)
- 6) Income from undisclosed sources.

### 3.4) INCOME ACCRUES IN INDIA MEANS-

- 1) Income from business connection in India
- 2) Income from any property, asset or source of income in India.
- 3) Capital gain on transfer of a capital asset situated in India.
- 4) Income from salary if service is rendered in India.
- 5) Income from salary (not being perquisite/allowance) if service is rendered outside India (provided the employer is government of India and the employee is a citizen of India)

6) Dividend paid by the Indian company.

7) In case of interest, royalty and technical fees following should be kept in mind

a) In case it is paid by Government of India it shall always accrue in India (irrespective whether it is related to business or source in India or outside India).

b) In case it is paid by resident it shall always accrue in India except when loan, in case of interest is related to business or source of income situated outside India. E.g if loan is taken for project outside India then the interest paid shall accrue outside India.

c) In case the payment is made by a non resident it will always accrue outside India except when it is related to business or source in India.

8)

### • Royalty means

a) Consideration for use of/ right to use patent, design, model, secret formula, trademark.

b) WEF AY21-22 consideration for distribution or exhibition of movies is also treated as royalty.

c) Right to use computer software is also royalty.

d) Right to use any property/ information.

### • Technical Fees includes-managerial, technical or consultancy services.

### 3.5) Business Connection-

#### **1) Residential Status-Concept of Business Connection**

#### **What is Business Connection?**

'Business connection' shall include any business activity carried out through person acting on behalf of the non-resident.

For a business connection to be established, the person acting on behalf of the non-resident-

(i) Must have an authority which is habitually exercised to conclude contracts on behalf of the non-resident or however, if his activities are limited to the purchase of goods or merchandise for the non-resident, this provision will not apply.



## 8. Residence and the Scope Of Total Income

(ii) In a case, where he has no such authority, but habitually maintains in India a stock of goods or merchandise from which he regularly delivers goods or merchandise on behalf of the non-resident, or

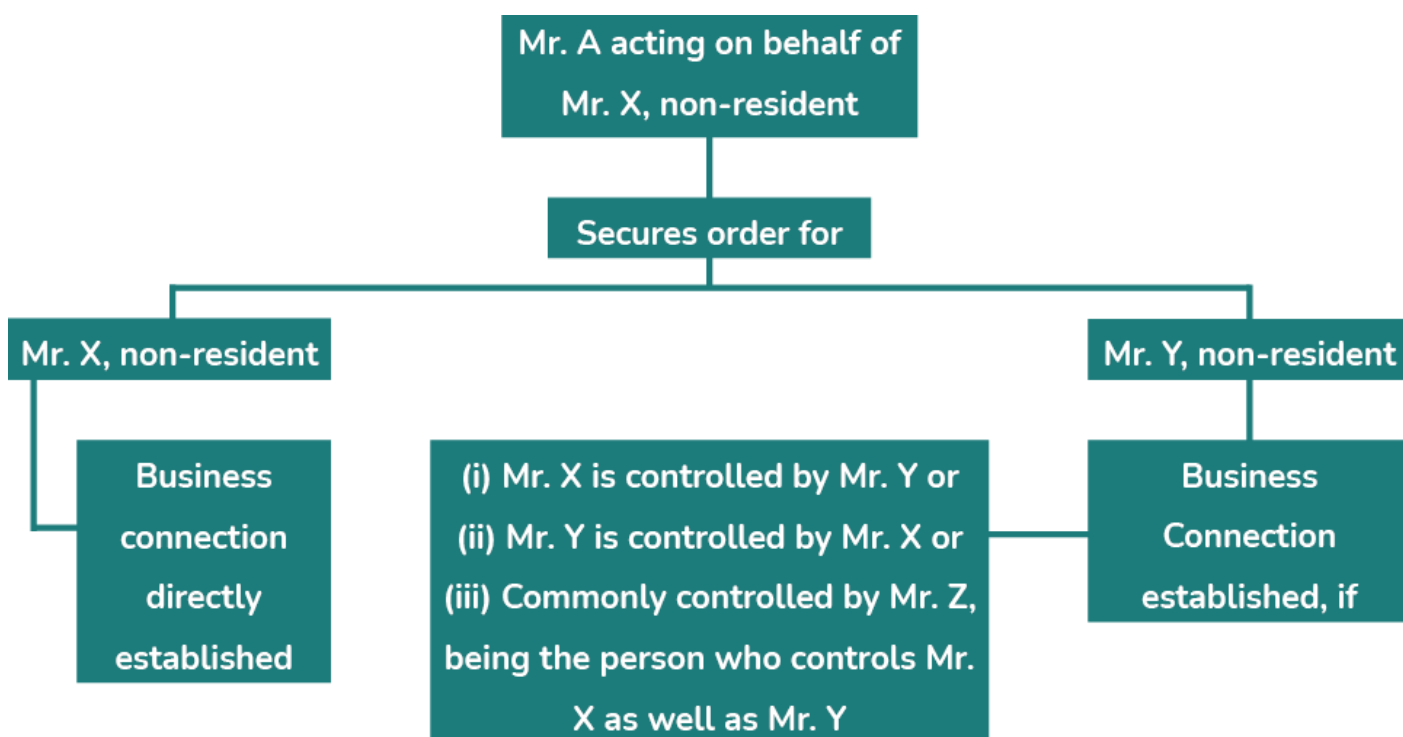
(iii) Habitually secures orders in India, mainly or wholly for the non-resident. Further, there may be situations when the person acting on behalf of the non-resident secure order for other non-residents. In such situation, business connection for other non-residents is established if,

a) Such other non-resident controls the non-resident or

b) Such other non-resident is controlled by the non-resident or

c) Such other non-resident is subject to same control as that of non-resident.

In all the three situations, business connection is established, where a person habitually secures orders in India, mainly or wholly for such non-residents.



**2) Agents having independent status are not included in Business Connection:** Business connection, however, shall not be established, where the non-resident carries on business through a broker, general commission agent or any other agent having an independent status, if such a person is acting in the ordinary course of his business.

A broker, general commission agent or any other agent shall be deemed to have an independent status where he does not work mainly or wholly for the non-resident will,

## 8. Residence and the Scope Of Total Income

however, not be considered to have an independent status in the three situations explained above, where he is employed by such a non-resident.

Where a business is carried on in India through a person referred to in (i), (ii) or (iii) of (a) above, only so much of income as is attributable to the operations carried out in India shall be deemed to accrue or arise in India.

### 3) Significant economic presence [explanation 2A to section 9(1)(i)]

Significant economic presence of a NR in India shall also constitute business connection in India.

Significant economic presence means-

	Nature of transaction	Condition
A.	In respect of any goods, services or property carried out by NR with any person in India including provision of download of data or software in India	Aggregate of payments arising from such transaction/transactions during the previous year should exceed 2 crore.
B.	Systematic and continuous soliciting of business activities/engaging in interaction with users in India	The number of users should be atleast 3 lakhs.

Further, the above transaction or activities shall constitute significant economic presence in India, whether or not-

- i. the agreement for such transactions or activities is entered in India.
- ii. the NR has a residence or place of business in India
- iii. the 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.

## 8. Residence and the Scope Of Total Income

4) In the case of a Non-resident the following shall not, however, be treated as business connection in India [Explanation 1 to section 9(1)(i)]:

1. Purchase of goods in India for export [Explanation 1(b) to section 9(1)(i)]: In the case of a non-resident, no income shall be deemed to accrue or arise in India to him through or from operations which are confined to the purchase of goods in India for the purpose of export.
2. Collection of news and views in India for transmission out of India [Explanation 1(c) to Section 9(1)(i)]: In the case of a non-resident, being a person engaged in the business of running a News agency or of publishing newspapers, magazines or journals, no income shall be deemed to Accrue or arise in India to him through or from activities which are confined to the collection of news and views in India for transmission out of India.

in case of a business for which all operations are not carried out in India.



3. Shooting of cinematograph films in India [Explanation 1(d) to section 9(1) (i)]: In the case of a non-resident, no income shall be deemed to accrue or arise in India through or from operations which are confined to the shooting of any cinematograph film in India, if such non-resident is:

- a. an individual, who is not a citizen of India or
- b. a firm which does not have any partner who is a citizen of India or who is resident in India; or
- c. a company which does not have any shareholder who is a citizen of India or who is resident in India.

## 8. Residence and the Scope Of Total Income

### 4. Activities confined to display of rough diamonds in SNZs [Explanation 1(e) to section 9(1)(i)]:

In order to facilitate the FMCs to undertake activity of display of uncut diamond (without Any sorting or sale) in a Special Notified Zone (SNZ), clause(e) has been inserted in Explanation 1 to section 9(1)(i) to provide that 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 display of uncut and unassorted diamonds in any special zone notified by the Central Government in the Official Gazette in this behalf.

### Concept 4: Taxability of Income in India

#### 4.1

No	Income	R - OR	R-NOR	NR
1.	Indian Income			
2.	Foreign Income -			
2a	Business controlled or profession set up in India.			
2b.	( Foreign Income )			
	Foreign Income -			
	Business controlled or profession set up outside India			
3.	Other Foreign Income			

#### Note

- 1) Remittance of income earned outside India into India is not an Income.
- 2) Once income is included on accrual basis, it shall not be again included on receipt basis.

#### 4.2) Three Rules for taxability

1. Indian Income will always be taxable in India irrespective of Residential Status
2. In case of R- OR global income will be taxable in India. Global income means Indian as well As foreign income
3. For a non resident only his Indian Income is taxable in India.

## 8. Residence and the Scope Of Total Income

### Questions for Practice

1. X, a non-resident lent Rs.5, 00,000/- to Y, resident in India. Y used the money borrowed by him for purpose of business in India. Y paid an interest of Rs.75,000/- during the year ended 31<sup>st</sup> March 2024 to X in the United Kingdom. Discuss the taxability of such interest in the hand of X in India.

3. Mr. Ram, an Indian citizen, left India on 22.09.2023 for the first time to work as an officer of a company in a Germany. Determine the residential status of Ram for the assessment year 2024-25. (Module Question Illustration 1)

4. Mr. Dey residing in US since 1990, came back to India on 1.4.2022 for permanent settlement. What will be his residential status for assessment year 2024-25 (Module Question 2)

5. Brett Lee, an Australian cricket player visits India for 100 days in every financial year. This has been his practice for the past 10 financial years. (a) Find out his residential status for the A.Y. 2024-25 (b) Would your answer change if the above facts relate to Srinath, an Indian citizen who resides in Australia and represents the Australian cricket team? (c) What would be your answer if Srinath had visited India for 120 days instead of 100 days every year, including P.Y. 2023-24? (Module question 2.9 Illustration 2)

6. Mrs. Rani, furnishes the information about her period of stay in India during P.Y. 2012-13 to 2023-24 which is as follows:

2012-13	30 days	2016-17	75 days	2020-21	35 days
2013-14	60 days	2017-18	45 days	2021-22	115 days
2014-15	60 days	2018-19	70 days	2022-23	35 days
2015-16	155 days	2019-20	180 days	2023-24	65 days

Determine her residential status for the A.Y. 2024-25.

7. Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the F.Y. 2023-24. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the A.Y. 2024-25 assuming that both have exercised the option of shifting out of the default tax regime provided under section 115 BAC (1A) (module question 3pg 2.37)

## 8. Residence and the Scope Of Total Income

Sr.No	Particulars	Ramesh(Rs.)	Suresh (Rs.)
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	35,000	40,000
2.	Dividend from British company received in London	28,000	20,000
3.	Profit from a business in Nagpur, but managed directly from London	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India	60,000	90,000
5.	Income from a business in Chennai	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada	1,00,000	----
7.	Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
9.	Rent received in respect of house property at Bhopal	1,00,000	60,000
10.	Life insurance premium paid	---	30,000

8. Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passenger in international traffic departing from Chennai port on 6<sup>th</sup> June, 2023. From the following details for the P.Y.-2023-24, determine the residential status of Mr. Anand for A.Y- 2024-25, assuming that his stay in India in the last 4 previous years (preceding P.Y-2023-24) is 400 days (module question 2.7 illustration 1)

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	6 <sup>th</sup> June, 2023
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand	9 <sup>th</sup> December, 2023

9. Mr. David an Indian citizen aged 40 years, a Government employee serving in the Ministry of External Affairs, left India for the first time on 31-03-2023 due to his transfer to High Commission of Canada. He did not visit India any time during the previous year 2023-24. He has received the following income for the Financial Year 2023-24:

S. No.	Particulars	Rs.
--------	-------------	-----

## 8. Residence and the Scope Of Total Income

(i)	Salary ( computed)	5,00,000
(ii)	Foreign Allowance( not included in (i) above)	4,00,000
(iii)	Interest on Fixed deposit from bank in India	1,00,000
(iv)	Income from agriculture in Nepal	2,00,000
(v)	Income from house property in Nepal	2,50,000

Compute his Gross Total Income for A. Y. 2024-25. (Module question 2.24 illustration 6)

10. Examine with reasons whether the following transactions attract income -tax in India in the hands of recipients:

(i) Salary paid by Central Government to Mr. John, a citizen of India Rs. 7,00,000 for the services rendered outside India.

(ii) Interest on moneys borrowed from outside Rs. 5,00,000 by a non - resident for the purpose of business within India say, at Mumbai.

(iii) Post office saving bank interest of Rs. 19,000 received by a resident assessee, Mr. Ram, aged 46 years.

(iv) Royalty paid by a resident to a non- resident in respect of a business carried on outside India.

(v) Legal charges of Rs. 5,00,000 paid in Delhi to a lawyer of United Kingdom who visited India to represent a case at the Delhi High Court. ( module question 5)

11. X is an Indian citizen currently located in Dubai. He visits India in Py 23-24 for 55 days and was in India for 435 days in last 4 years and his income other than foreign income is 16, 00,000 for the year. For PY 23-24 X is not taxable in Dubai or any other country due to his residential status. Determine his residential status in India



### Budget Quotes-1st February 2020

“It is proposed to reduce the time of stay in India from 182 days to 120 days for an Indian citizen or person of Indian origin to become resident in India.

-Nirmala Sitharaman

Author's Quotes -

## 8. Residence and the Scope Of Total Income

*People were tax planning in such a way that they were neither Resident in India nor in Any other countries and hence ended up paying taxes no where. Therefore the concept of Deemed Resident.*





## Contents of Chapters (Sections 60 to 64)

C1: Introduction

C2: Clubbing takes place in following situations

### Concept 1: Introduction

**Generally taxpayer is charged to tax in respect of his own income.**

Taxpayers make an attempt to reduce their tax liability by transferring their assets to their Family members, whereas the benefit of the income is directly or indirectly derived by the taxpayer. Hence with the intention to curb such a practice there are certain provisions according to which income earned by the other person is clubbed.

### Concept 2: Clubbing takes place in following situations

**(Worksheet for clubbing of income along with conceptual questions)**

Sr.	Situation	Tax implication
I) Asset is not transferred but income arising from the asset is transferred in such a case income will be clubbed in the hands of transferor.		
1.	Mr. X transferred interest of 14000 on the Debentures to his friend Mr. Y. However Debentures are not transferred.	
2.	Mr. Vatsan has transferred, through a duly registered document, the income arising from a godown to his son, without transferring the godown.	
II) Asset is transferred but transfer is revocable then income from the asset will be clubbed in the hands of transferor.		
3.	Mr. X transferred Debentures yielding interest of Rs22000 to his friend under a revocable transfer.	
4.	Mr. Rajesh transfers his house property to a trust for the benefit of Mr. Ramesh till his death. This is a situation of irrevocable transfer till the death of Mr. Ramesh.	Hence, till then, the income from house property would be taxable in the hands of the transferee i.e., the trust. However, after the death of Mr. Ramesh, the income from house property would be included in the

## 9. Income Of Other Persons Included In Assessee's Total Income

		total income of Mr. Rajesh as on that date, the transfer has become revocable.
<p><b>III) If individual has substantial interest in an organization and his/her spouse works in the organization without professional skill or expertise or experience then remuneration will be clubbed in the hands of individual.</b></p> <p><b>Substantial Interest means when an Individual along with relatives holds</b></p> <p><b>i. 20% or more equity / voting rights or</b></p> <p><b>ii. 20% or more share of profit</b></p> <p><b>Relative = Husband, Wife, Brother, Sister, lineal ascendant or lineal descendant.</b></p>		
5.	Mrs. A is employed in XYZ Ltd in which Mr. A has 25% Equity shareholding. Mrs. A does not have any Professional skill and her salary is Rs 30,000 p m	
6.	Assume in the above case Mrs. A is having good experience qualified for the job.	
7.	Mrs. A has 15% equity shareholding & Mr. A also has 15 % holding. Both are employed without any skill salary of Mrs. A 20000 pm & Mr. A 25000 pm. Other Income of Mrs. A 10 lakh & Mr. A 8 lahks.	
<p><b>IV) Individual transfer asset other than H.P. to his or her spouse for inadequate consideration. Then income from the asset will be clubbed in the hands of transferor.</b></p>		
8.	Mr. Sonu gifted debentures of 1,00,000 to his Wife; Interest on the debentures is 15000.	
8a.	Wife sold the debentures and there was capital gain of 50,000	
8b.	After selling the debentures, wife invested 100000 In Fixed deposit in the bank and got interest of 10000	
8c.	She gave a loan to her friend of 10000 out of the Interest on FD and earned interest of 1500	
9.	Mr. A gifted his property to Mrs. X and	

## 9. Income Of Other Persons Included In Assessee's Total Income

	Mr. X gifted an Equivalent property to Mrs. A	
10.	Mr. Monu gifted shares of a foreign co to his wife. Wife got dividend of Rs 5000.	
10a.	Wife received Bonus Shares and also received 3000 as dividend on bonus shares.	Accretion to asset not be clubbed
11.	Relationship of husband & wife should subsist at both points 1)when asset is transferred and 2)when income is earned	
Eg	Mr. X transferred debentures to his would be wife debentures yielded an interest of Rs 10,000. Mr. Y transferred debentures to Mrs. Y, interest of 10000 received every year. However after 2 years both got separated	
12.	If capital given by spouse invested in business the proportionate profit will be clubbed	
13.	If capital given by spouse is invested as capital in partnership firm then clubbing is as follow: Share of profit- Salary of partner- Interest on capital-	
14.	Clubbing will not take place if the asset is acquired out of pin money (Money given for maintenance of household expenses )	
15.	Also no clubbing if the asset is transferred with connection to live apart	
V) Individual transfers an asset to son's wife for inadequate consideration then income arising from the asset will be clubbed in the hands of transferor.		

## 9. Income Of Other Persons Included In Assessee's Total Income

Individual _____ son's wife Father/mother in law ___ Transfer asset ___ Daughter in law		
<b>VI) Individual ----- Trust/AOP ----- Spouse</b> Individual transfers an asset to a trust/AOP/ a third party for benefit of spouse then income from the asset will be clubbed in the hands of transferor.		
16.	Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of ` 36,000 per annum shall be utilized for the benefit of her son's wife.	
<b>VII) Individual _____ Trust/AOP _____ son's Spouse</b> Individual transfers an asset to an trust/AOP/ a third party for benefit of son's spouse then income from the asset will be clubbed in the hands of transferor.		
Mr. Y transferred debentures to his friend subject to an agreement that the interest on the same shall be transferred to his son's wife		
<b>VIII) Minors income is clubbed in the hands of Mother/Father whose other income is higher (Income other than the income to be clubbed)</b>		
17.	Minor earns Rs 1,00,000 from stage acting	
18.	Minor gets 10,000 as interest on fixed Deposit	
19.	Income of minor clubbed in the hands of	
20.	If parents are separated , then clubbed in the Hands of	
21.	Once minor income is clubbed in the hands of Mother/Father	
22.	If husband & wife are not alive then minors Income	

## 9. Income Of Other Persons Included In Assessee's Total Income

23.	<i>Clubbing done after an exemption of</i>	
24.	<i>No clubbing in 3 cases</i>	
<b>IX) Clubbing provisions in case of HUF</b>		
<b>a. Before Partition: If an individual transfers his self acquired property to HUF, then income there from will be clubbed in the hands of the transferor.</b>		
	<i>Mr. X transfers his self acquired property to his HUF Income earned from the property is 60000</i>	
<b>b. After Partition: If the property transferred by the individual to HUF is received by the spouse of that individual, then the income from the property will be clubbed in the hands of the individual.</b>		
	<i>HUF of X consists of X , Mrs. X, major son, minor daughter. After partition of HUF the property is equally divided</i>	

### Notes

1. Minor child includes step child and adopted child.
2. Clubbing will stop once the child attains majority i.e. 18 years
3. While clubbing the income it shall be clubbed under the same head of income as in case of The transferee. Eg: Bank interest of minor shall be clubbed under IOS
4. Negative income shall also be clubbed.
5. If Income tax cannot be recovered from the transferor, A.O. can recover it from the Transferee.
6. Clubbing is mandatory in the above 9 situation.
7. Income of minor married daughter is also clubbed.

## 9. Income Of Other Persons Included In Assessee's Total Income

8. The income will be eligible for the exemptions & deductions under that particular head. The person in whose hands the income is clubbed shall also be eligible for deductions under chapter VI A and set off of losses
9. Credit of TDS will be given to the person in whose hands the income is taxable.
10. Advance tax paid by the income earner (say minor or spouse) cannot be adjusted towards Tax liability of the individual in whose hands the income has been clubbed. In such case the Payer of advance tax can apply for refund.

### Questions for practice

1. A proprietary business was started by Smt. Rani in the year 2021. As on 1.4.2022 her capital in business was Rs. 3, 00,000. Her husband gifted Rs.2,00,000 on 10.4.2022 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the financial year 2022-23 Rs. 1, 50,000 and Financial year 2023-24 Rs.3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2024-25 with reasons. (Module question 4.25 4)
2. X and Y form a partnership firm on April 1, 2023 (profit sharing ratio 2:3) by investing Rs.10 lakhs and Rs.15 lakhs respectively. The investment has been financed from the following sources:

	X (Rs)	Y (Rs)
Gift from Mrs. X	6,60,000	0
Gift from Mrs. Y	0	8,00,000
Past savings of X and Y	3,40,000	7,00,000
Interest on Capital @ 12%	1,20,000	1,80,000
Salary as a working partner	24,000	24,000
Share of Profit	1,08,000	1,62,000

Find out the income chargeable to tax in the hands of X and Mrs. X

## 9. Income Of Other Persons Included In Assessee's Total Income

3. In the problem no 2 above find out the amount chargeable to tax in the hands of Y and Mrs. Y.

4. Mr. Vasudevan gifted a sum of Rs. 6 lakhs to his brother's wife on 14-6-2023. On 12-7-2023, his brother gifted a sum of Rs. 5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-08-2023 at 9% interest. Examine the consequences of the above under the provisions of the Income - tax Act, 1961 in the hands of Mr. Vasudevan and his brother. (Module question 4.17 illustration 9)

5. During the previous year 2023-24, the following the following transactions occurred in respect of Mr. A (Module Question 4.25 2)

Mr. A had a fixed deposit of 5, 00,000 in Bank of India. He instructed the Bank to credit the interest on the deposit @ 9% from 1-4-2023 to 31-3- 2024 to the savings bank account of Mr. B, son of his brother, to help him in his education.

Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of Rs.25,000 from the firm for promoting the sales of the firm. Mrs A possesses no technical or professional qualification.

Mr. A gifted a flat to Mrs. A on April 1, 2023. During the previous year 2023-24, Mrs. A's "Income from house property" (computed) was 52,000 from such flat.

Mr. A gifted 2, 00,000 to his minor son who invested the same in a business and he derived income of 20,000 from the investment.

Mr A's minor son derived an income of 20,000 through a Business activity involving application of his skill and talent.

During the year, Mr. A got a monthly pension of 10,000 He had no other income. Mrs. A received salary of 20,000 per month from a part time job.

Examine the Tax implications of each transaction and Compute the total income of Mr. A, Mrs. A and their minor child assuming that they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).



### Contents of the chapter: (Sections 70 to 74)

C1: Introduction

C2: Inter Source Adjustment

C3: Inter Head Adjustment

C4: Carry forward

C5: Order of set-off

### Concept 1: Introduction

**1.1)** In simple words, "Set off" means adjustment of losses against the profits from another source/head of income in the same assessment year. If losses cannot be set-off in the same year due to inadequacy of eligible profits, then such losses are carried forward to the next assessment year for adjustment against the eligible profits of that year. There are certain rules for set-off.

**1.2)** Following are the steps in set off and carry forward:

1)	Inter source adjustment - under same head	(u/s 70)
2)	Inter head adjustment - in same AY	(u/s 71)
3)	Carry forward of losses	(u/s 71B to 74A)

**1.3:-** Understanding the concept



# 10. Aggregation of Income, Set off and Carry Forward of Losses

## Concept 2: INTER SOURCE ADJUSTMENT:

### 2.1) What do you understand by inter source adjustment:

Eg: H1 Self occupied	(30000)	This is inter source adjustment i.e. under same head.
H2 Let Out	120000	
Income from HP	90000	

Eg: Business (I)	(60000)	This is inter-source adjustment i.e. under Same head.
Business (II)	160000	
PGBP	100000	

### 2.2) Rules: for Inter source Adjustment

1. Loss from speculation business can be set off only against speculation business profit.
2. Loss under Long Term Capital gain - set off only against LTCG
3. Loss from activity of owning and maintaining race horses set off only against income from such activity.
4. No loss can be set off against winnings from lotteries, crossword puzzles, Casual Income
5. Loss from the business specified u/s 35 AD can be set off only against income from any specified business. ( w e f A Y 2010 -11)

Note: Income from activity of owning and maintaining race horses is not casual income. It is taxed under IOS at normal rates. Loss from such activity can be set off only against such income. Remember only the above rules and other than above rules no other restriction for inter source adjustment

Eg: LTC loss	(20000)	Eg: LTC loss	(20000)
STC gain	100000	LTC gain	100000
STC gains	100000	LTC gain	80000

Assessee can do Inter source adjustment in a manner which is more beneficial to him.

Hint: Always ask Question “ \_\_\_\_\_?”

## 10. Aggregation of Income, Set off and Carry Forward of Losses

### 2.3) Conceptual Questions - (KYC)

1) 1) Speculation Business loss Speculation business	(45000) 126000	2) HP-1 (SO) HP-2 LO	(91000) 130000
∴ PGBP		Income from HP	
3) Loss owning & Maintaining Race Horses	(27000)	4) Speculation loss	(54000)
3) Profits from such activity	12000	Non speculation Bus	107000
∴ IOS		PGBP	
5) Cold Chain Facility business (35AD)	(1,00,000)	6) Cold Chain Facility business (35AD)	4,00,000
Business of Electronics	3,88,000	Business of Electronics	(80,000)
PGBP		PGBP	
		7) Cold Chain Facility business (35AD)	(1,00,000)
		Business of Fertilizers(35AD)	3,88,000
		PGBP	
8) Non Speculation Business Speculation Profit	(75000) 230000	9) Machinery hire charges- IOS	(35000)
PGBP		Winnings	176000
		IOS	
1) Speculation Business loss Speculation business	(45000) 126000	2) HP-1 (SO) HP-2 LO	(91000) 130000
8) ∴ PGBP		Income from HP	
3) Loss owning & Maintaining Race Horses	(27000)	4) Speculation loss	(54000)
Profits from such activity	12000	Non speculation Bus	107000
∴ IOS		PGBP	

Note: Where a part of business of company consists of purchase and sale of shares of other company then such activity is deemed to be speculation business. (to the extent of purchase/sale of such shares) This clause is not applicable to companies whose main business is trading in shares banking, granting of loans and advances.

## 10. Aggregation of Income, Set off and Carry Forward of Losses

### Concept 3: INTER HEAD ADJUSTMENT: (same assessment year)

#### 3.1) What do you mean by inter head adjustment?

Eg: 1) HP 1 (SO)	(150000) inter source adjustment
HP 2 LO	100000
	(50000)
2) Business Income	100000 HP income inter head adjustment
GTI	50000
Eg: 1) HP 1 (SO)	(150000) inter source adjustment

#### 3.2) Rules for Interhead Adjustment

1. **Speculation Business loss** can be set off only against speculation profit.
2. **Loss under the head Capital Gains** can be set off only under the head Capital Gains.  
LTC Loss - only LTC Gains  
STC Loss - LT / ST Gains
3. **Loss from the activity of owning and maintaining race horses** - set off only against income Of such activity.
4. No loss can be set off **against winnings from lottery, crossword puzzles** (Casual income)
5. **Business loss** cannot be set off against salary income.
6. Loss from the business **specified u/s 35 AD** can be set off only against income from any specified business. ( w e f A Y 2010 -11)
7. No loss can be set off against deemed **undisclosed income u/s 68 to 69D**.( AY 17-18)
8. W.e.f. AY 18-19 Loss under the head Income From House Property would be kept limited to Rs.2,00,000 for adjustment against income from other head. The balance loss shall be carried Forward.

## 10. Aggregation of Income, Set off and Carry Forward of Losses

### 3.3) Conceptual Questions Continued - KYC

1) Business Loss	(44000)	2) Business Loss	(92000)
Salaries	240000	Winnings from puzzles	100000
GTI		GTI	
3) ST Capital Loss	(12000)	4) Business Loss	(51000)
Business Income	64500	Income -HP	151000
GTI		GTI	
5) STC Loss	(64000)	6) Business (Speculative)	(42000)
LTC Gain	24000	Business (Non Speculative)	100000
Capital Gains		PGBP	
Business Income	50000	IOS	42000
GTI		GTI	
1) Business Loss	(44000)	2) Business Loss	(92000)
Salaries	240000	Winnings from puzzles	100000
GTI		GTI	
3) ST Capital Loss	(12000)	4) Business Loss	(51000)
Business Income	64500	Income -HP	151000

### Concept 4: CARRY FORWARD

#### 4.1) Correct Sequence

1. FIRST always Inter source adjustment      2. THEN Inter head adjustment

If after two adjustments any loss remains it can be CARRIED FORWARD for set off in NEXT YEAR.

Assessee should first set off the losses which cannot be carried forward.

- However there is one BASIC RULE that once a loss is carried forward it is set off only against The respective head. -There are certain rules for carry forward of losses.

## 10. Aggregation of Income, Set off and Carry Forward of Losses

### 4.2) Rules for Carry Forward of Losses

Nature of Loss	Can be set off Against	CARRY - FORWARD		
		Years	Continuity of Business	Return filed In time <sup>139(1)</sup>
1) House Property Loss	Income - HP	8	-	No
2) Speculation Business Loss	Speculation Business Profit	4	Not necessary	Yes
3) Non Speculation Buss. Loss (Refer Note 4)	Any Business Income	8	Not necessary	Yes
4) Specified business loss (35AD)	Specified business profit	Any no. of yrs	Not Necessary	Yes
5) STC Loss	STCG / LTCG	8	-	Yes
6) LTC Loss	LTC Gains	8	-	Yes
7) Loss from activity of owning & maintaining race horses	Income from such Activity	4	Necessary	Yes
8) Unabsorbed depreciation (Capital expenditure on scientific research, family Planning) Capital Expenses	Any income	Any No of years	Not Necessary	No

#### Note

1. Loss - under 105 cannot be carried forward except activity of owning and maintaining race horses.
2. Unabsorbed depreciation, capital expenditure on scientific research & family planning are not covered u/s 72 and hence can be carried forward for any number of years and can

## 10. Aggregation of Income, Set off and Carry Forward of Losses

be set off against any income and can be carried forward even if a belated return is filed

3. Losses from card games, lottery, casual income should be ignored
4. Trading in agriculture commodities will be considered as non-speculative business.
5. Also trading in derivatives also considered as non speculation business (derivatives = future & options)
6. Intra day trading in share (where delivery is not effected - normal business income)

### 4.3) Conceptual Questions

Answer the questions based on the above table

- 1) Losses can be generally carried forward for **8 years**, but following are the exceptions
  - a)
  - b)
  - c)
  - d)
  
- 2) Income tax Return must be filed **within** due date for carry forward of following losses
  - a)
  - b)
  - c)
  - d)
  - e)
  
- 3) Following losses can be **carried forward** even if return is not filed within the due date
  - a)
  - b)
- 4) Important points about **unabsorbed** depreciation

## 10. Aggregation of Income, Set off and Carry Forward of Losses

### Concept 5: Order of Set Off:

No.	Particulars	Section
1.	Current Business Loss	70,71
2.	Current year depreciation	32(1)
3.	Current year capital expenditure on Scientific Research	35(1)
	Current year capital expenditure on Family Planning	36(1)(ix)
4.	Brought forward business loss	72(1)
5.	Unabsorbed Depreciation	32(2)
6.	Unabsorbed Capital expenditure on Scientific Research	35(4)
	Unabsorbed Capital expenditure on Family Planning	36(1)(ix)

### Questions for Practice

1. X submits the following information relevant for the Assessment Year 2024-25.

Interest on Government Securities (held as investments)	1,50,000
Business Profits (before claiming the following deductions)	2,28,000
Current Depreciation allowance	58,000
Current scientific research expenditure	24,000
Brought forward business loss of the previous year:	
1999-2000	11,000
2015-16	9,000
2018-19	15,000
Unabsorbed Depreciation of the previous year	
1999-2000	6000
2014-15	2000

Determine the net income of X for the Assessment Year 2024-25.

2. Mr. A (aged 35 years) submits the following particulars pertaining to the A.Y. 2024-25

Particulars	Rs.
Income from salary	4,00,000
Loss from let-out property	(-) 2,20,000
Business loss	(-) 1,00,000
Bank interest (FD) received	80,000

Compute the total income of Mr. A for the AY 2024-25, assuming that

- He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- He pays tax under the default tax regime. (Module question 5.7 illustration 1)

## 10. Aggregation of Income, Set off and Carry Forward of Losses

3. Mr. Rajat submits the following information for the financial year ending 31st March 2024. He decides to pay tax under the default tax regime u/s 115BAC. He desires that you should: a) Compute the Total income and b) Ascertain the amount of losses that can be carried forward. (Module question 5.28 8)

	Particulars	Rs.
(i)	He has two let out house property: House No. 1 - Income after all statutory deductions House No. II - Current year loss	72,000 (30,000)
(ii)	He has 3 proprietary businesses:	
	a) Textile business:	
	1) Discontinued from 31st October, 2023 - current year loss	40,000
	2) Brought forward business loss of A.Y. 2019-20	95,000
	b) Chemical Business:	
	1) Discontinued from 1st March 2021 - Hence no profit / loss	Nil
	2) Bad debts allowed in earlier years recovered during this year	35,000
	3) Brought forward business loss of A.Y. 2020-21	50,000
	c) Leather business: Profit for the current year	1,00,000
	d) Share of profit in a firm in which he is partner since 2009	16,550
(iii)	a) Short-term capital gain	60,000
	b) Long-term capital loss	35,000
(iv)	Contribution to LIC towards premium	10,000

- 4) Mr. Soohan submits the following details of his income for the assessment year 2024-25:

Particulars	Rs.
Income from salary (Computed)	3,00,000
Loss from let out house property	(-) 40,000
Income from sugar business	50,000
Loss from iron ore business b/f (discontinued in P. Y. 2018-19)	(- )1,20,000
Short term capital loss	(-) 60,000
Long term capital gain	40,000
Dividend	5,000
Income received from Lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural Income	20,000
Short- term capital loss under section 111A	(-) 10,000
Bank interest on Fixed deposit	5,000



## 10. Aggregation of Income, Set off and Carry Forward of Losses

Calculate gross total income and losses to be carried forward. Assuming that he exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). (Module question 5.24 2)(HW)

5. Mr. A furnishes you the following information for the year ended 31.03.2024.

	Particulars	Rs.
(i)	Income from plying of vehicles (computed as per books) He owned 5 light goods vehicle throughout the year )	3,20,000
(ii)	Income from retail trade garments: (Computed as per books) (sales turnover Rs. 1,35,70,000) Mr. A had declared income on presumptive basis under section 44AD for the first time in A.Y. 2023-24. Assume 10% of the turnover during the previous year 2023-24 was received in cash and balance through A/C payee cheque and all payments in respect of expenditure were also made through A/c payee cheque or debit card.	7,50,000
(iii)	He has brought forward depreciation relating to A. Y. 2022-23	1,00,000

Compute taxable income of Mr. A and his tax liability for the Assessment year 2024-25 with reasons for your computation. Assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). (Module question 5.25 4)



### Contents of chapter

(Sections 139, 140, 234A, 234F)

C1· - Introduction
C2·- When is the return to be filed as statutory obligation?
C3·-Due date for filing of returns u/s 139(1)
C4·- Loss Return/ Belated/ Revised & Defective Returns
C5·- PAN and Aadhaar Number
C6·- Consequences of late filing of Income Tax Return
C7·- Particulars to be furnished with returns
C8·- Section 139B: Tax return preparer (TRP)
C9·- Section 140: Return & Signatory
C10·- Self Assessment tax 140A
C11· - Section 140B

### Concept 1: Introduction

The Income tax Act, 1961 contains provisions of filing of return of income. Return of income is the format in which the assessee furnishes information as to his total income and tax payable. The format of filing of return by different assesses is notified by the CBDT. The particulars of income earned under different heads, gross total income, deductions from gross total income, total income and tax payable by the assessee are generally required to be furnished in a return of income. In short, a return of income is the declaration of income by the assessee in the prescribed format.

### Concept 2: When is the return to be filed as statutory obligation 139(1)?

Taxpayer	When Mandatory to file the return
1) Company or firm (LLP included)	Whether income or loss it is compulsory to file the return of income
2) Other assessee (Individual/HUF/AOP/BOI's/ AJP)	Compulsory if total income before deductions under chapter VI A exceeds the basic exemption limit or before giving effect to Sec 10A or Sec 10AA exceeds basic exemption limit

# 11. Provisions for Filing Return Of Income and Self Assessment

<p>Note : The BEL should be considered depending on default or optional tax regime.</p>	<p>Also exemption u/s 54/54B/54D or 54EC or 54F or 54G or 54GB if added back and income exceeds basic exemption limit then mandatory return Filing. (wef AY 20-21)</p>
<p>3) Every person, being a resident other than not ordinarily in India.</p>	<p>Would be required to file a return of income or loss for the previous year if such person, at any time during the previous year,-</p> <p>a) holds, as a beneficial owner or otherwise, any asset (including any interest in any entity.)</p> <p>Located outside India or has a signing authority in any account located outside India; or</p> <p>b) Is a beneficiary of any asset (including any financial interest in any entity located outside India)</p>
<p>4) Every person who is otherwise not required to furnish the return (wef AY 20-21)</p>	<p>a) Has deposited total amount exceeding 1 crore rupees in one or more current accounts maintained with a Banking Company or Co-operative bank or</p> <p>b) Has incurred total expenditure exceeding 2 lakhs p.a. on himself or any other person for foreign travel</p> <p>c) Has incurred expenditure exceeding 1 lakh p.a. towards consumption of electricity.</p> <p>d) Fulfils any condition as may be prescribed.</p>
<p>5) Every person (other than LLP and Company) Has to mandatorily file return (Rule 12AA) if some conditions satisfied.</p> <p>Every person (other than LLP and Company)</p>	<p>a) if his total sales, turnover or gross receipts, as the case may be, in the business &gt; ₹ 60 lakhs during the previous year</p> <p>b) if his total gross receipts in profession &gt; ₹ 10 lakhs during the previous year</p> <p>c) if the aggregate of TDS and TCS during the PY is 25,000 or more For R. Senior Citizen it is 50,000 or more</p> <p>d) The deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakhs or more during the previous year.</p>

**Meaning of “beneficial owner” and “beneficiary” in respect of an asset for the purpose of Section 139:**

**Beneficial Owner:-**An individual who has provided, directly or indirectly, consideration for the asset for the immediate or future benefit, direct or indirect, of himself or any other person

# 11. Provisions for Filing Return Of Income and Self Assessment

**Beneficiary:-** An individual who derives benefit from the asset during the previous year and the consideration for such asset has been provided by any person, other than such beneficiary.

Senior Citizen of 75 years and above being resident are exempt from filing income tax returns if certain conditions are satisfied- (wef AY 22-23, FA 2021)

1) he has pension income and no other income. However, in addition to such pension income he may also have interest income from bank in which he is receiving his pension income .

2) This bank is specified bank. The Government will be notifying a few banks which are banking company to be the specified bank.

3) The specified bank has deducted TDS u/s 194P.

If above all conditions are satisfied then provisions of Sec 139(1) are not applicable.

## Example 1:

State whether filing of income-tax return is mandatory in respect of the following cases:

	Reasons
1. Income from house property(computed) Rs.60,000	
2. Income from other sources(computed) Rs.40,000	
3. A LLP with business loss of Rs. 1,30,000	

**Example 2:** Mr. A's G.T-I is Rs. 3,60,000; chapter VI A deductions 1,80,000; therefore NTI = 1, 80,000 should he file return?

**Answer:**

**Example 3:** GTI of Mr. Raddhe is Rs. 2,00,000 during the year. However, he has incurred Rs. 2,50,000 on foreign travel of himself and his wife.

# 11. Provisions for Filing Return Of Income and Self Assessment

**Example 4:** Paras aged 55 years is a resident of India. During the FY 23-24 interest of 288000 was credited to his NR(External) Account with SBI. 30000 being interest on FD with SBI, was credited to his savings bank account during this period. He also earned 3000 as interest on this savings bank account. Is Paras required to file return of income. What will be your answer, if he has incurred 3 lakhs as travel expenditure of self and spouse to US to stay with his married daughter for some time? (Module Question)

## Concept 3: Due date for filing of returns u/s 139(1)

Assessee	Due Date
1) For companies	31 <sup>st</sup> October
2) Non corporate assessee a) Accounts are required to be audited b) working partner in a firm, which is covered under tax audit A partner of firm whose accounts are to be audited under Income Tax Act 1961 or any other law.	31 <sup>st</sup> October  31 <sup>st</sup> October
3) Any other Case	31 <sup>st</sup> July
4) Assessee who need to furnish report under transfer pricing u/s 92E including the partners of the firm which are covered under transfer pricing.(FA 2021)	30 <sup>th</sup> November

### Examples:

1. A Ltd. Turnover being 2.3 crores	
2. ABC Ltd. Turnover being 90 lakhs	
3. ABC partnership firm turnover being 2.5crores	
3a. Partner A of the above firm	

# 11. Provisions for Filing Return Of Income and Self Assessment

4. ABC partnership firm turnover being 90lakhs	
4a. Partner A of the above firm.	
5. Mr. Anup a salaried person	
6. Mr. A, having turnover of Rs 85lakhs and opts for Section 44AD	
6a. Assume in the above case Mr. A does not opt for 44AD	

## Example:

Can an individual, who is not in India, verify the return of income from outside India? Is there any other option?

## Answer:

Example: Income tax return of 31/03/2024.

	Due date 139(1)	Belated Return 139(4)	Revised Return 139(5)	Updated Return 139 (8A)
1) Assessee is company				
2) Salaried Person				

## Concept 4: Loss return/Belated/Revised & Defective Returns

Section	Particulars
139(1) due date for filing 139	Assessee required to file return of income compulsorily within the due date of Income tax (provided above)

# 11. Provisions for Filing Return Of Income and Self Assessment

<p><i>(1A) Option to furnish return to employer</i></p>	<p>1) The section gives an option to a salaried person, to furnish a return of his income for any previous year to his employer, in accordance with such scheme as may be notified by the CBDT.</p> <p>2) Such employer shall furnish all returns of income received by him on or before the due date, CD-ROM or any other computer readable media.</p>
<p><i>139(1B) Return through computer readable Media</i></p>	<p>1) This section enables the taxpayer to file his return of income in computer readable media.</p> <p>2) Such person may, on or before the due date, furnish a return of income in accordance with such scheme as may be notified by the CBDT.</p>
<p><i>139(1C) Exemption from filing Return</i></p>	<p>1) Under section 139 (1), every person has to furnish a return of his income on or before the due date, if his total income exceeds the basic exemption limit.</p> <p>2) For reducing the compliance burden of small taxpayers, Central Government has been empowered to notify the class or classes of persons who will be exempted from the requirement of filing of return of income, subject to some prescribed conditions.</p>
<p><i>139(3) Loss return</i></p> <div data-bbox="164 1328 371 1406" style="background-color: #4a86e8; color: white; border-radius: 10px; padding: 5px; text-align: center; margin-top: 20px;"> <p>May 15</p> </div>	<p>Return of income should be submitted within the due date specified u/s 139(1). If however a return of loss is not submitted within the time limit the following losses cannot be carried forward</p> <p>1) Business loss -speculation/non speculation/Specified Business loss u/s 35AD</p> <p>2) Capital loss</p> <p>3) Loss from the activity of owning and maintaining race horses.</p> <p>However loss from house property, unabsorbed depreciation and unabsorbed scientific research expenditure, unabsorbed capital expenditure on family planning can be carried forward even if the return is not submitted within the time limit u/s 139(1).</p>
<p><i>139(4) Belated Return FA 2021</i></p> <div data-bbox="164 1906 371 1984" style="background-color: #4a86e8; color: white; border-radius: 10px; padding: 5px; text-align: center; margin-top: 20px;"> <p>Nov. 16</p> </div>	<p>1) If a return is not submitted within time limit u/s 139(1) then a belated Return can be filed.</p> <p>2) Time limit for filing = 3 months before the end of the relevant AY (31<sup>st</sup> December 2022) or completion of assessment whichever is Earlier.</p> <p>3) A belated return can be revised. ( W E F A Y 2017-18)</p> <p>4) Certain losses cannot be carried forward in case of belated return (as stated above)</p>

# 11. Provisions for Filing Return Of Income and Self Assessment

	<p>5) Deduction u/s 10AA, 80IA to 80RRB, will not be available in case of belated return. [80IA, 80IB, 80IAB, 80IC, 80ID, 80IE, 80JJA, 80JJAA, 80LA, 80P, 80PA, 80QQB, 80RRB]</p>																					
<p>139(5) Revised Return</p> <p style="background-color: #4a86e8; color: white; padding: 5px; border-radius: 10px; display: inline-block;">May 14</p>	<p>1) Any mistake, omission or a wrong statement which is bonafide can be corrected by the assessee by filing a revised return</p> <p>2) Following returns can be revised</p> <p>a) Original return.</p> <p>b) Belated Return ( w e f A Y 2017-18)</p> <p>c) Revised return</p> <p>w e f A Y 17-18 - A return furnished in response to a notice issued under section 142(1) cannot be revised</p> <p>3) A return can be revised for any no. of times but within the time limit</p> <p>4) The time limit for revising the return is till 3 months before the end of the relevant AY or completion of assessment whichever is earlier.</p> <p>ie., 31<sup>st</sup> December 2022 or completion of assessment ↓ (FA 2021).</p>																					
<p>139(8A) Updated Return FA 2022</p>	<p>1) Assessee has filed ITR u/s 139(1), 139(4), 139(5) or not filed ITR.</p> <p>2) Such assessee can furnish updated ITR within 24 months from end of relevant AY.</p> <p>Eg: An updated return for AY 2024-25 can be filed till 31/03/2027.</p> <p>3) Updated return cannot be filed in following cases :</p> <p>i. If already updated return is filed.</p> <p>ii. It results in loss return.</p> <p>iii. It results in increase in refund.</p> <p>iv. A search or survey has been initiated.</p> <p>If original loss return is filed on or before the due date u/s. 139(1), then updated return is return of Income</p> <p>4) If original loss return is filed on or before the due date u/s. 139(1), then updated return is return of Income</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 33%; text-align: center;">Original Return</td> <td style="width: 33%; text-align: center;">Updated</td> <td style="width: 33%; text-align: center;">Return of Income</td> </tr> <tr> <td></td> <td style="text-align: center;">→</td> <td></td> </tr> <tr> <td style="text-align: center;">Loss &amp; Within due date</td> <td style="text-align: center;">return</td> <td></td> </tr> <tr> <td style="text-align: center;">Eg: Motabhai</td> <td style="text-align: center;">→</td> <td></td> </tr> <tr> <td style="text-align: center;">ITR AY 23-24 on</td> <td></td> <td style="text-align: center;">Can file updated</td> </tr> <tr> <td style="text-align: center;">31/05/2023 business</td> <td></td> <td style="text-align: center;">return upto</td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">31/03/2026</td> </tr> </table>	Original Return	Updated	Return of Income		→		Loss & Within due date	return		Eg: Motabhai	→		ITR AY 23-24 on		Can file updated	31/05/2023 business		return upto			31/03/2026
Original Return	Updated	Return of Income																				
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ITR AY 23-24 on		Can file updated																				
31/05/2023 business		return upto																				
		31/03/2026																				



# 11. Provisions for Filing Return Of Income and Self Assessment

	<p><i>Loss of 5 lacs.</i></p> <p><i>5) In case, filing of updated return results in reduction of carried forward losses then updated return should be furnished for each subsequent PY to give impact of reduced losses.</i></p>
<p><b>139(9)</b> <b>Defective</b> <b>Return</b></p>	<p><i>1) Return furnished by the assessee becomes defective if</i></p> <p><i>a) annexure, statements and columns in the return are not duly filled in</i></p> <p><i>b) if the tax along with interest and self assessment tax has not been paid</i></p> <p><i>On or before the due date of furnishing the income tax return.</i></p> <p><i>W e f A Y 2017-18 - A return which is otherwise valid cannot be treated defective merely because self assessment tax and interest payable in accordance with the provisions of section 140A, has not been paid on or before the date of furnishing of the return.</i></p> <p><i>2) The AO may intimate the defect to the assessee</i></p> <p><i>3) The assessee should rectify the defect within a period of 15 days from the date of such intimation</i></p> <p><i>4) The AO may extend the time limit on an application by the assessee</i></p> <p><i>5) If the defect is not rectified within the given time then the return will be treated as invalid return. The provisions of the Act will be applicable as if no return of income has been filed.</i></p> <p><i>6) The AO may condone delay if the defect is rectified before completion of assessment.</i></p> <p><i>7) CBDT may relax/modify above conditions for some classes of assesses.</i></p> <p><i>8) If a return is updated return then it may be treated as defective return if payment u/s 140B is not done.</i></p>

## Concept 5: PAN and Aadhar Number :-

Pan consists of 10 alphanumeric characters and is issued in form of laminated card.

### 5.1) Mandatory to obtain PAN:

- 1) If income exceeds basic exemption limit*
- 2) If the turnover exceeds Rs. 500000 in any PY*
- 3) Charitable trust required to furnish return of income*
- 4) Exporters and importers applying for Import Export Code (IEC)*
- 5) Assessee covered under Central Excise Rules*

# 11. Provisions for Filing Return Of Income and Self Assessment

6) *Assessee covered under GST*

7) *Central Government may notify any person or class of persons to apply for PAN*

8) *PAN is mandatory for such non-individual entities which enters into financial transaction Valuing more than Rs. 2,50,000 (wef AY 19-20).*

9) *PAN is also mandatory for a authorized signatories of such entities irrespective of their financial transactions and income (wef AY 19-20).*

## 5.2) Quoting of PAN 139A:

1) *PAN is to be quoted on all return of income, challans or correspondence with Income Tax*

2) *Sale/ purchase of immovable property of Rs. 10,00,000 or more*

3) *Sale/ purchase of motor vehicle*

4) *Time deposit in bank of more than 50000*

5) *Purchase/ sale of securities exceeding Rs. 100000*

6) *Opening a bank account/ demat A/c*

7) *Purchase of debentures of bonds exceeding 50,000*

8) *Paying hotel bill of more than Rs. 50,000 in cash*

9) *Cash deposit of Rs. 50000 in a bank in one day*

10) *Payment for foreign travel or payment of foreign currency at one time exceeding 50000 in cash.*

11) *Payment of 50000 or more for purchase of Mutual Fund*

12) *Payment to RBI for acquiring bonds exceeding 50000*

13) *Payment of life insurance more than 50000 in a year.*

14) *Purchase of bank drafts or pay orders in cash exceeding 50,000 in one day.*

15) *Or for any other transaction prescribed by Board.*

## Note: -

1) *Minor has to quote PAN of his father or mother or guardian.*

2) *PAN must be intimated to person responsible for deducting TDS.*

# 11. Provisions for Filing Return Of Income and Self Assessment

- 3) Every person who does not have a PAN shall make a declaration in form 60.
- 4) Persons having only agricultural income are not required to apply for PAN and have to file a declaration Form No. 61.
- 5) Interchangability of PAN and Aadhar  
Every person who is required to furnish or intimate or quote his PAN may furnish or intimate or quote his Aadhar Number in lieu of his PAN wef 1-9-2019 if he
  - has not been allotted a PAN but possesses the Aadhar number
  - has been allotted a PAN but possesses the Aadhar Number to prescribed authority in accordance with the requirement contained in Sec 139AA(2)
- 6) Failure to quote PAN/ Aadhaar will attract a penalty of ₹ 10,000 for the default u/s 272B(1). Such penalty shall be imposed after opportunity of being heard is given.

May 18

## 139AA-AADHAR NUMBER MANDATORY

W e f 01-07-2017 - Aadhar Number Mandatory - New section introduced

1. Every person being eligible to obtain Aadhar Number on or after 01-07-2017 have to quote Aadhar Number in
  - i) Application Form for allotment of PAN
  - ii) Return of Income
2. In case of person already having PAN as on 01-07-2017 and is eligible to obtain Aadhar Number should intimate to the authority his Aadhar Number.
3. Where a person does not have Aadhar Number it is mandatory to quote 28 digit enrollment identification number.
4. The provision of Sections 139AA relating to the quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar Number or Enrollment ID and is
  1. residing in Assam, Jammu and Kashmir, Meghalaya
  2. a non resident as per Income tax Act 1961
  3. of the age 80 years or more at any time during the previous year
  4. not a citizen of India
5. The last date for intimating Aadhar Number to IT Act 1961 for the purpose of linking Aadhar Number to PAN is **31<sup>st</sup> March 2022**.
6. If linking of Aadhar & PAN is not done within due date at then -

# 11. Provisions for Filing Return Of Income and Self Assessment

- a) PAN would become inoperative &
- b) penalty of 1000 u/s 234H shall be levied. (wef FA 2021)
- 7. Once a PAN becomes inoperative then all consequences of not furnishing / quoting PAN would be applicable wef 01/04/23
- 8. ITR filed on or after 1/4/2019 cannot be filed without quoting PAN

## 5.4) Consequences of non linking of PAN and AADHAR

(1) PAN becomes inoperative.

(2) Section 114AAA provides that if PAN becomes inoperative then it will have following consequences

- (i) The person will not be able to file return using inoperative PAN.
- (ii) Pending returns will not be processed.
- (iii) Refunds cannot be issued to inoperative PAN's.
- (iv) Pending proceedings in case of defective returns cannot be completed.
- (v) Tax will be required to be deducted at a higher rate as PAN becomes inoperative.

## 5.5) 234H

WEF 01.04.2021 (FA 2021, ) New section introduced-

Due date for linking of Aadhar or PAN u/s 139AA is 31<sup>st</sup> March 2022. However, if linking of does not happen within the due date the assessee shall be liable to pay

- a) Rs. 500 upto 30/06/2022 and
- b) Rs. 1000 otherwise

## Concept 6: Consequences of late filing of Income Tax Return:

Nov. 14

6.1) Following are the consequences

- 1) Certain Loss cannot be carried forward
- 2) Interest u/s 234A for late filing
- 3) Late fees u/s 234F

# 11. Provisions for Filing Return Of Income and Self Assessment

4) No deduction u/s 80IA to 80RRB and 10A (80IA, 80IAB, 80IAC, 80IB, 80IBA, 80IC, 80IE,

80JJA, 80JJAA, 80LA, 80M, 80P, 80PA, 80QQB, 80RRB)

5) In some cases non filing of ITR can attract higher rate of TCS and TDS.

## 6.2) 234A

### *Interest u/s 234A*

1) It is attracted when assessee furnishes the return after the due date u/s 139(1) or does not furnish the return of Income.

2) Simple Interest @1% p.m. or part thereof.

3) It is calculated from the date following the due date till the date of filing the return. If no return is filed the interest is calculated till completion of assessment.

4) Interest is calculated on Tax amount - Advance Tax (-) TDS (-) Self Assessment Tax paid till due date (-) any relief of tax claimed u/s 89 (-) tax credit allowed to be set off u/s 115JD

5) However where the assessee has paid taxes in full on/before the due date interest u/s 234 will not be leviable.

## 6.3) 234F

W e f 01.04.2018 new section introduced - Fees on late furnishing of return is 5000. In case where Net Total Income upto Rs. 5 lakhs, Fees for belated return shall be Rs. 1,000 (fees changed wef AY 22-23)

## **Concept 7: Particulars to be furnished with returns**

### 7.1) Particulars to be furnished with the return [section 139(6)] -

The prescribed form of the return shall, in certain specified cases, require the assessee to furnish the particulars of -

i) Income exempt from tax;

ii) Assets of the prescribed nature and value, held by him as a beneficial owner or otherwise or in which he is a beneficiary;

iii) His bank account and credit card held by him;

iv) Expenditure exceeding the prescribed limits incurred by him under prescribed heads; and

# 11. Provisions for Filing Return Of Income and Self Assessment

v) Such other outgoings as may be prescribed.

## 7.2) Particulars to be furnished with return of income in the case of an assessee engaged in Business or profession [Section 139(6A)]

The prescribed form of the return shall, in the case of an assessee engaged in any business or profession, also require him to furnish -

- i) The report of any audit referred to in section 44AB.
- ii) The particulars of the location and style of the principal place where he carries on the business or profession and all the branches thereof.
- iii) The name and addresses of his partners, in such business or profession.
- iv) If he is a member of an association or body of individuals,
  - a) The names of the other members of the association or the body of individuals; and
  - b) The extent of the share of the assessee and the shares of all such partners or members, as the case may be, in the profits of the business or profession.)

## 7.3) Power of CBDT to dispense with furnishing documents etc. with the return and filing of return in electronic form (section 139C & 139D)

- i) Section 139C provides that the CBDT may make rules providing for a class or classes of persons who may not be required to furnish documents, statements, receipts, certificate, reports of audit or any other documents, which are otherwise
- ii) However, on demand, the said documents, statements, receipts, certificate, reports of audit or any other documents to be produced before the assessing officer.
- iii) Section 139D empowers the CBDT to make rules providing for -
  - a) The classes of persons who shall be required to furnish the return of income in electronic form;
  - b) The form and the manner in which the return of income in electronic form may be furnished;
  - c) The documents, statements, receipts, certificates or audited reports which may not be furnished along with the return of income in electronic form but have to be produced before the Assessing Officer on demand;

# 11. Provisions for Filing Return Of Income and Self Assessment

The computer resource or the electronic record to which the return of income in electronic form may be transmitted.

Nov. 12/May 14/  
Nov.16/May 18

## Concept 8: Section 139B: TAX RETURN PREPARERS (TRP):

- 1) Under a new scheme certain class of assessee can file their returns through **Tax Return Preparers**.
- 2) TRP shall assist the assessee to prepare and furnish the return of income and shall also affix their signature on return. **However this option of filing through TRP is not available to persons covered under Tax Audit.**
- 3) The scheme has laid down the educational and other qualifications and training requirements to be fulfilled by TRP
- 4) A TRP may be an individual other than a
  - Chartered Accountant
  - Employee of specified class of persons
  - Legal practitioner who is entitled to practice in civil court in India.
  - Any officer of scheduled bank where the assessee maintains a current account.
- 5) The duties and obligation of the TRP are also prescribed in the scheme.

Nov. 12/May 14/  
Nov.16/May 18

## Concept 9: Section 140: Return & Signatory

Assessee	Signatory
1) Individual	Himself
2) When individual is incapacitated	His guardian or person authorized on his behalf
3) H U F	Karta
3a) When Karta is incapacitated/not in India	Any adult member of the family
4) Partnership Firm	Managing partner or any partner other than Minor
5) Company	Managing director (when there is no M-D, then any other director) or any other person as may be Prescribed for this purpose Wef AY 21-22
6) If company is in liquidation	The liquidator or any person holding power of Attorney

# 11. Provisions for Filing Return Of Income and Self Assessment

7) When companies management is taken over by government	The principal officer
8) Company Non-Resident in India	A person who holds valid power of attorney
9) Local Authority	Principal officer
10) Political Party	C.E.O. (whether he is known as secretary or any other designation)
11) AOP	Any member or principal officer
12) Any other person	That person or some other competent person
13) L L P	Designated partner or if there is no such partner then any partner or any other person as may be Prescribed  <b>Note : Any other person prescribed shall be a person appointed by national company law tribunal as per Bankruptcy code 2016</b>
14) A company whose application for corporate insolvency has been accepted. (wef AY 19-20)	By the insolvency professional appointed by the authority under the insolvency and Bankruptcy code 2016.

If the return of income is not signed then it will not be a return at all and it shall be void-ab-initio i.e. the return is not filled at all.

## Concept 10: Self Assessment Tax 140A.

May 18

1) Where any tax is payable on basis of return furnished, after taking into account advance tax and any TDS or TCS, the assessee shall be liable to pay the tax together with interest.

**Tax Payable = Tax on total income - Advance Tax - TDS/TCS - any relief of tax claimed u/s 89 (-) any tax or interest payable u/s 191(2) (wef AY 21-22)**

2) Assessee failing to pay tax wholly or in part would be 'assessee in default'.

3) Self Assessment tax paid shall be firstly adjusted towards fees interest and then tax. Late fees has been introduced u/s 234F (w.e.f. AY 18-19.)



# 11. Provisions for Filing Return Of Income and Self Assessment

## Concept 11: Section 140 B

### Tax on Updated Return (wef FA 2022)

Earlier no ITR filed

Earlier ITR filed

Tax liability as per updated ITR	XX
Less : TDS / Advance Tax	XX
Less: Relief u/s 89	XX
Tax Payable	XX
(+) interest u/s 234A/B/C	XX
(+) Late Fees	XX
Total	XX

Tax liability as per updated ITR	XX
Less: Tax paid u/s 140A as per earlier return	XX
Less: TDS not considered earlier	XX
Tax Payable	XX
(+) Int. U/S 234 A/B/C	XX
(-) Int. already paid	XX

### Questions for Practice

1. Mrs. Hetal an individual engaged in the business of Beauty Parlour, has got her books of accounts for the Financial Year ended 31<sup>st</sup> March 2024 audited under section 44AB. Her total income for A.Y. 2024-25 is Rs 6,35,000. She wants to furnish her return of income for A.Y. 2024-25 through a tax return preparer. Can she do so? (Module Question 8.40 illustration 3).

2. State with reason whether you agree or disagree with the following statements:

- Return of income of Limited Liability Partnership (LLP) could be verified by any partner.
- Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of Rs. 160 lakhs (Rs. 100 Lakhs received in cash) for the year ended 31.03.2024, whether or not declaring presumptive income under section 44AD, is 31st October, 2024. (Module question 8.52 1)

# 11. Provisions for Filing Return Of Income and Self Assessment

3. Mr. Vineet exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and submits his return of income under the optional tax regime (i.e. the normal provisions of the Act) on 12-9-2024 for A.Y-2024-25 consisting of income under the head "salaries", "Income from house property" and Bank interest. On 21-12-2024, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Saving Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21-03-2025? (module question 8.52 2)

4. Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

a. The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.

Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family. (module question 8.52 3)

5. Explain the term 'return of loss' under the Income tax Act, 1961. Can a loss be carried forward even if return of loss has not been filed as required? [intermediate May 15, Module question 8.52 4)

6. Mr. Aakash has undertaken certain transactions during the F.Y-2023-24, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in related documents- (Module question 8.52 5)

	Transactions	Is quoting PAN Mandatory?
1.	Payment of Life insurance premium of 45,000 in current FY 23-24 by account payee chq to LIC for insuring life of self and spouse	

## 11. Provisions for Filing Return Of Income and Self Assessment

2 ·	Payment of 1,00,000 to a five-star hotel for stay for 5 days with family out of which 60,000 was paid in cash.	
3 ·	Payment of 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian Company	
4 ·	Payment of 95,000 by account payee cheque to Thomas cook for travel to Dubai for 3 days to visit relatives	
5 ·	Applied to SBI for issue of credit card	

### Theory Questions from Past Question Paper

- 1) By whom should the return of income be signed in the case of following persons-
  - Political party
  - Company being wound up
  - HUF, when karta is unavailable to sign.

[Intermediate may 18]
- 2) Specify the persons who are authorized to verify (u/s 140) a return of income filed by a company u/s 139 [Intermediate, Nov. 2016]
- 3) Gross total income of Y a super senior citizen is 560000. He is entitled for deduction under sec 80C to 80U to the Rs. 70,000. For PY 23-24 is he liable to file his return of income under sec 139(1) (for AY 2024-25. If so why? [Intermediate Nov 16]
- 4) Who are the persons authorized to verify return of income in case of individual under section 139?

"Filing of return of income on or before due date is necessary for carry forward of losses. Discuss the corrections of this statement [Intermediate Nov 14]

## 11. Provisions for Filing Return Of Income and Self Assessment

6. Where the karta of an HUF is absent from India, return of income can be signed by any male member of family. Give reasoning for statement to be true or false [Intermediate May 14]

7. Enumerate the circumstances in which an individual assessee is empowered to verify his return of income under sec 139 by himself or otherwise by an authorized signatory

[Intermediate IPCC Nov 12]

8. Briefly mention the provisions of I-T Act with regard to quoting a aadhar Number u/s 139 AA of the Act [Intermediate May 18]

9. Briefly mention the concept of self-assessment tax u/s 140 of IT Act and its components [Intermediate May 18]

Indicate the three situations where the return of income has to be compulsorily filed u/s 139(1) of Income Tax Act 1961 [Intermediate, May 18]

## 11. Provisions for Filing Return Of Income and Self Assessment

### *Budget Quote - 1<sup>st</sup> February 2023*

*It has been the constant endeavour of the Income Tax Department to improve Tax Payers Services by making compliance easy and smooth. Our tax payers' portal received a maximum of 72 lakh returns in a day; processed more than 6.5 crore returns this year; average processing period reduced from 93 days in Financial Year 13-14 to 16 days now; and 45% of the returns were processed within 24 hours. We intend to further improve this, roll out a next- generation Common IT Return Form for Tax payer convenience, and also plan to strengthen the grievance redressal mechanism.*

For Chapter Content refer Chart Book

### Know Your Concepts

1. Mr. X Paid premium of Rs.85000 towards annuity plan.

2. Mrs. X purchased bonds of infrastructure of Company Rs.25000

3. X paid medical insurance premium on health of the following:

- a) Own- Rs.9000 by cheque
- b) Dependent brother: Rs.6000 by Cheque
- c) Major son dependent on him Rs.8000 by cash
- d) Minor Married daughter Rs.5000 by cheque
- e) Wife not dependent on assessee Rs.5000 by cheque

4. Mr. X incurred Rs.5000 on medical treatment of his brother who is handicapped and dependent on him

5. Mrs. Y deposited Rs.1, 00,000 in Insurance Scheme for maintenance of her handicapped son.

6. Assume in above case her Son is severely handicapped.

7. Mr. X has incurred medical expenditure of Rs.37000 on treatment of specified disease of his sister

8. Mrs. X has taken an educational loan for his son's higher studies from Nationalized Bank. Repayment of Loan Principal: Rs.40000 Interest Repayment:Rs.55000

9. Assume in the above case, loan is taken from a relative

10. Donation of Rs.6000 to an electoral trust.

11. Donation of Rs.10000 to a Political Party.

12. Examine the following statements with regard to the provisions of income-tax Act, 1961: Whether they are true or false. (Module question 6.100)

- i. During the financial year 2023-24, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under Sec80E.
  
- ii. Subscription to notified bonds of NABARD would qualify for deduction under section 80C.
  
- iii. In order to be eligible to claim deduction under section 80C, investment/contribution/ subscription etc. in eligible or approved modes should be made from out of income chargeable to tax.
  
- iv. Where an individual repays a sum of Rs. 30,000 towards principal and Rs. 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is Rs. 44,000 irrespective of the tax regime.

v. Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received

Rs. 7 lakh on 1.5.2023, being amount standing to the credit of Mr. Satish in his NPS account, in respect of which deduction has been allowed under section 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on closure of the account is deemed to be her income for A.Y. 2024-25. (Module Question 6.100)

vi. Mr. Vishal, a Central Government employee, contributed Rs. 50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 80CCD. He has exercised the option of shifting out of the default tax regime provided under section 115 BAC (1A) (module question 6.100)

13. Examine the allowability of the following if the assesses have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) (module question 6.100 2)

i. Rajan, a resident individual, has to pay to a hospital for treatment Rs. 62,000 and spent nothing for life insurance or for maintenance of dependent disabled

ii. Varun, a resident Indian, has spent nothing for treatment in the previous year and deposited Rs. 25,000 with LIC for maintenance of dependant disabled.

1. Hari a resident individual has incurred Rs. 20,000 for treatment and Rs. 25,000 was deposited with LIC for maintenance of dependant disabled.



## 12. Deduction From Gross Total Income

14. Ms Rose has bought an electric vehicle for which she borrowed capital from Bank. The interest on the said loan is Rs 1, 61,200.

15. Mr. Rajmohan whose gross total income was Rs. 6,40,000 for the financial year 2023-24 furnishes you the following information:

Repayment of loan taken from SBI for acquisition of residential house (self-occupied) - Rs. 50,000.

Five year post office time deposit - Rs. 20,000.

Donation to a recognized charitable trust Rs. 25,000 which is eligible for deduction under section 80 G at the applicable rate.

Interest on loan taken for higher education of spouse paid during the year Rs. 10,000.

Compute the total income of Mr. Rajmohan for the A.Y. 2024-25 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(Module question 6.101 4)(HW question)

### Questions for Practice

1) Mr. A has commenced the business of manufacture of computers on 1.4.2023. he employed 350 new employees during the P.Y. 2023-24, the details of whom are as follows:

No. of employees	Date of employment	Regular/Casual	Total monthly emoluments per employee (Rs.)
75	1.4.2023	Regular	24,000
125	1.5.2023	Regular	26,000
50	1.8.2023	Casual	25,500
100	1.9.2023	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for A.Y. 2024-25, if the profits and gains derived from manufacture of computers that year is Rs. 75 lakhs and his total turnover is Rs.

10.16 crores. What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2023? (Module question 6.66 illustration 17)

## 12. Deduction From Gross Total Income

2. Mr. Aakash earned royalty of Rs.2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was Rs.40,000. The amount remitted to India till 30<sup>th</sup> September 2024 is 2,30,000. The remaining amount was not remitted till 31<sup>st</sup> March 2025. Compute the amount includible in the GTI of Mr. Aakash and amount of deduction which he will be eligible for under section 80QQB. If he has exercised the option of shifting out of the default tax regime provided under section 115BAC (1A). (Module Question 6.69 illustration 18)

3. X a resident individual furnishes the following information

Business Income	2,58,500
Short Term Capital Gain (Sec 111A)	1,02,000
Long Term Capital Gain	7,40,000
Winning from races	1,11,500
Payment of medical insurance premium on own life	12,000
Donation to Prime Minister's National Relief Fund	49,000
Donation to an approved charitable institution	48,000
Donation to central government for the purpose of promoting family	24,000

Find out tax liability

4. Determine the tax liability of X with the following data

Business Income	83000
Interest on debentures	49000
Long term capital gain on transfer of gold	410000
Short Term capital gain on sale of shares 111A	20000
Other short term capital gain	10000
Contribution to PPF	40000
Payment of medical insurance premium on own life	3000
Donation to National Trust for Autism	4000
Donation to Gujarat Government Fund for earthquake victims	3000
Donation to Rajiv Gandhi Foundation	1000
Donation to Prime Ministers Drought Relief Fund	5000
Donation to approved public charitable Trust	11000
Donation to a poor boy for higher studies	5000
Donation of clothes to an approved institution	12000
Donation to a charitable institution for construction of rest house only for A particular religious community	8000

## 12. Deduction From Gross Total Income

Donation to Central Government for the purpose of promoting family	24000
Donation to Clean Ganga Fund	8000
Donation to another approved charitable trust in cash	5000

5. Business Income from trading in Garments Rs.100000, Business Income from electronics Rs.200000, Bank Interest on saving a/c Rs.30500, PPF Contribution Rs.21000. Calculate Net Taxable Income.

6. Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 80GG) for A. Y. 2024-25 is Rs. 4, 60,000 paid house rent at Rs. 12,000 p. m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him under section 80GG for A. Y. 2024-25. (Module question 6.58 illustration 15)

7. Calculate tax liability of Mr. X, a resident individual on the basis of following information

Pension: 1,20,000 LTC Gain on sale of gold = 4,54,000 Winnings from lottery = 84,500 Contribution to PPF = 1,50,000

8. The Basic Salary of Mr. A is Rs.100000 per month. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms a part of pay for retirement benefits. Both Mr. A and his employer ABC Ltd., contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Explain the tax treatment in respect of such contribution in the hands of Mr. A. (Module Question)

9. Mr. A purchased a residential house property for self-occupation at a cost of Rs. 45 lakh on 1.4.2017, in respect of which he took a housing loan of Rs. 35 lakh from Bank of India @ 11% p. a. on the same date. The loan was sanctioned on 28 th March, 2017. Compute the eligible deduction in respect of interest on housing for A. Y. 2024-25. If Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), assuming that the entire loan was outstanding as on 31.03.2024 and he does not own any other house property. (Module question 6.44 illustration 12)

## 12. Deduction From Gross Total Income

10. The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D salaried individual for A. Y. 2024-25

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	Rs. 43 lakhs	Rs. 45 lakhs	Rs. 20 lakhs	Rs. 15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Date of disbursement of loan	1.5.2021	1.5.2020	1.5.2020	1.5.2019
Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	Rs. 45 lakhs	Rs. 48 lakhs	-	-
Cost of electric vehicle	-	-	Rs. 22 lakhs	Rs. 18 lakhs
Rate of Interest	9% p.a.	9% p.a.	10 % p.a.	10 % p.a.

Compute the amount of deduction, if any allowable under the provisions of the Income-tax Act, 1961 for A. Y. 2024-25 in the hands of Mr. A, Mr. B, Mr. C, and Mr. D. if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that there has been no principal repayment in respect of any of the loans upto 31.3.2024. (Module question 6.49 illustration 13)

# 13. Computation Of Total Income And Tax Payable



## Contents of chapter

C1: Steps to solve the problem

C2: AMT Alternate Minimum Tax

C3: Section 115BAC

### Concept 1: Steps to solve the problem

#### Step 1: Determination of residential status

1) Resident

a) ROR

b) R-NOR

2) Non -Resident

**Note:** An Indian citizen who is deemed resident in India would be RNOR.

#### Step 2: Classification of income under different heads

1) Salaries

2) Income from House Property

3) Profits and Gains of Business and Profession

4) Capital Gains

5) Income from other sources

#### Step 3: Computation of income under each head

Income under each head - exemptions- deductions

#### Step 4: Clubbing of income of spouse, minor child, etc.

#### Step 5: Set off or carry forward and set off of losses

1) Inter source set off of losses

2) Inter head set off of losses

3) Carry forward for set off of losses

#### Step 6: Computation of Gross Total Income $GTI = \text{Add Income under each head}$

computed  $\rightarrow$  Apply clubbing provisions  $\rightarrow$  Apply provisions

of Set off and carry forward of losses

# 13. Computation Of Total Income And Tax Payable

## Step 7: Deductions from Gross Total Income

- 1) deduction in respect of certain payments
- 2) Deduction in respect of certain incomes
- 3) Deductions in respect of other incomes
- 4) other deductions

## Step 8: Computation of Total income

1. Total income = GTI- Deductions under Chapter VI A
2. It should be rounded off to the nearest multiple of Rs. 10
3. Tax is calculated on the total income of the assessee.

## Step 9: Application of rates on the total income

1. Tax at normal rates
2. Tax at special rates
3. The special rates of tax have to be applied on the respective component of total income and the general slab rates have to be applied on the balance of the total income after adjusting basic exemption limit.

## Step 10: Rebate under section 87A (where total income less than equal to 5,00,000)/or surcharge if applicable

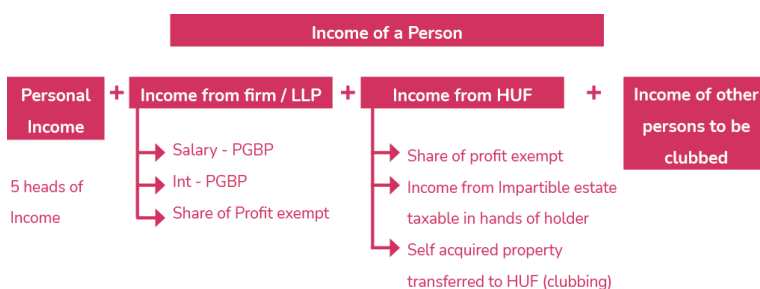
## Step 11: Health , Education cess and secondary and higher education cess

## Step 12: Examine the applicability of AMT

## Step 13: Examine whether or not to exercise the option under section 115BAC for availing concessional tax slab rates

## Step 14: Credit for advance tax, TDS , TCS.

## Step 15: Tax payable/ Tax refundable



## Concept 2: AMT-Alternate Minimum Tax-Section 115JC

### 2.1) The Provisions of AMT are applicable if

## 13. Computation Of Total Income And Tax Payable

- a) assessee is non-corporate assessee and
- b) assessee has claimed deduction u/s 10AA or u/s 35AD or u/s 80IA to 80RRB (Except 80P)
- c) AMT would not apply in case of individual/HUF opting for 115BAC.
- d) The provisions of AMT shall not apply to Individual/HUF/AOP/BOI/AJP if ATI does not exceed 20 lakhs [Sec 115 JEE(2)].

### 2.2) Alternate minimum tax shall be determined as higher of the two:

**Step 1:** Tax on NTI as per normal provisions of I-Tax Act.

**Step 2:** Tax @ 18.5% on Adj. Total Income (Plus Surcharge if applicable + cess)

Tax @ 15% for co-operative society. (w.e.f FA 2022)

### 2.3) Adj. Total Income is calculated as follows:

NTI	XX
Add: Deductions u/s 10AA(SEZ)	XX
Add: Deduction u/s 35AD (14 specified Business)	XX
Add: VIA Deductions (80IA to 80RRB) - 80JJAA, 80QQB, 80 RRB	XX
Less: Dep. u/s 32 assuming that deduction u/s	XX
35AD was not allowed	
ATI	XX

2.4) The Provisions of AMT apply only if assessee is claiming deduction u/s 10AA, 35AD, 80JJAA, 80QQB, 80RRB)

2.5) If AMT > Normal tax then excess shall be treated as AMT Credit

2.6) Such credit can be set off in the year in which regular tax is more than AMT

2.7) The Credit allowed to be set off will be restricted to the difference between the regular Income Tax computed and the AMT

## 13. Computation Of Total Income And Tax Payable

2.8) AMT Credit can be c/f and set off for 15 years. (115JD)

2.9) Assessee should obtain a report from CA for computation of ATI and AMT

2.10) The report in prescribed form should be submitted within the specified date referred to in Section 44AB

2.11) 18.5% rate is for all Incomes (Normal & special rate)

### Concept 3: Default tax regime u/s 115BAC

a. 115BAC would be treated as a default regime for Ind, HUF, AOP, BOI, AJP.

b. Tax Slabs

Upto 3,00,000	Nil
From 3,00,001 to 6,00,000	5%
From 6,00,001 to 9,00,000	10%
From 9,00,001 to 12,00,000	15%
From 12,00,001 to 15,00,000	20%
Above 15,00,001	30%

c. 115 BAC- Chapter wise benefit to be forgone u/s 115 BAC

<b>Salary</b>	<ul style="list-style-type: none"> <li>➤ MP/MLA - Daily allowance/Constituency allowance ✗</li> <li>➤ HRA ✗</li> <li>➤ LTC ✗</li> <li>➤ Allowance u/s 10(14) ✗</li> </ul> <p>Exceptions are Travelling(Tour) allowance/Daily allowance/Conveyance to office/ Transport allowance for handicapped</p> <ul style="list-style-type: none"> <li>➤ 16(ia) standard deduction ✓</li> <li>➤ 16(ii) EA ✗</li> <li>➤ 16(iii) PT ✗</li> </ul>
<b>PGBP</b>	<ul style="list-style-type: none"> <li>➤ 35 AD ✗</li> <li>➤ Additional dep ✗</li> <li>➤ Donation/contribution (for scientific Research) u/s 35 ✗</li> </ul>
<b>HP</b>	Section 24b Interest on borrowed Capital for SO property ✗
<b>Clubbing</b>	10(32) -1500 p.a



# 13. Computation Of Total Income And Tax Payable

<i>Set off</i>	<ul style="list-style-type: none"> <li>➤ Inter head adjustment of HP loss not allowed</li> <li>➤ Loss arising due to above adjustment cannot be c/f</li> </ul>
<i>VIA</i>	<p>All deductions X</p> <p>80 CCD(2) ✓</p> <p>NPS - employer contribution</p> <p>80 CCH(2) ✓</p> <p>CG-contribution to Agniveer Corpus</p> <p>80JJAA ✓</p> <p>10AA X</p>

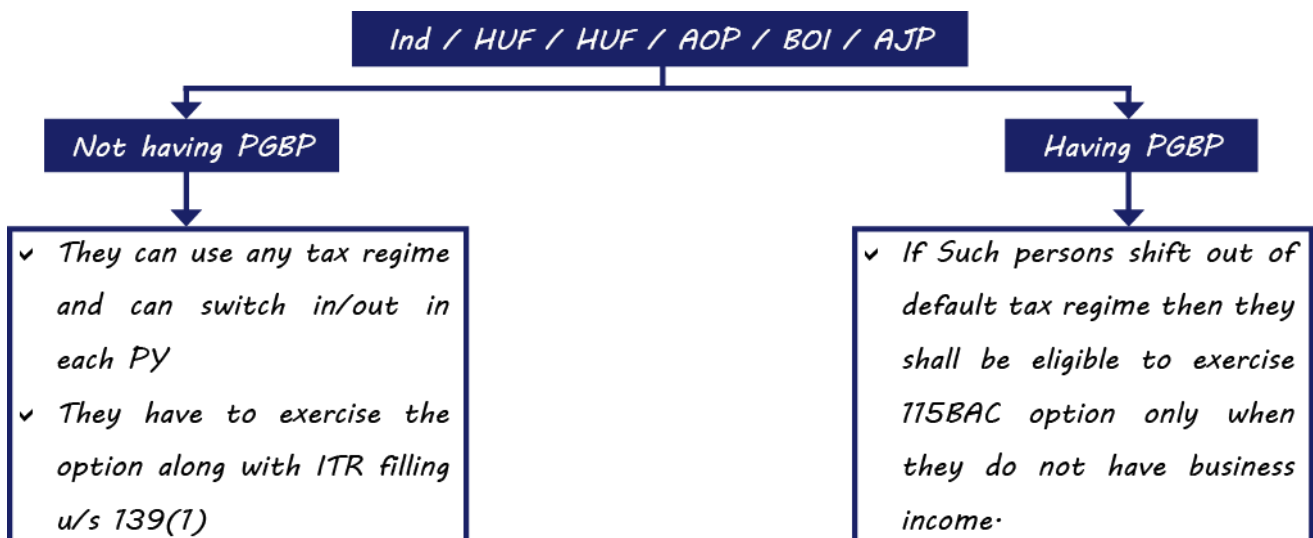
3. **Certain losses not allowed to be set-off:** While computing total income, set-off of any loss

1. carried forward or depreciation from any earlier assessment year, if such loss or depreciation is attributable to any of the deductions referred to in table above; or
2. under the head house property with any other head of income would not be allowed.

4. **Depreciation or additional depreciation:** 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 cannot be claimed.

5. **Exemption or deduction for allowances or perquisite:** While computing total income, any exemption or deduction for allowances or perquisite, by whatever name called, provided under any other law for the time being force in India would **not** be allowed.

6.



# 13. Computation Of Total Income And Tax Payable

## 7. Surcharge

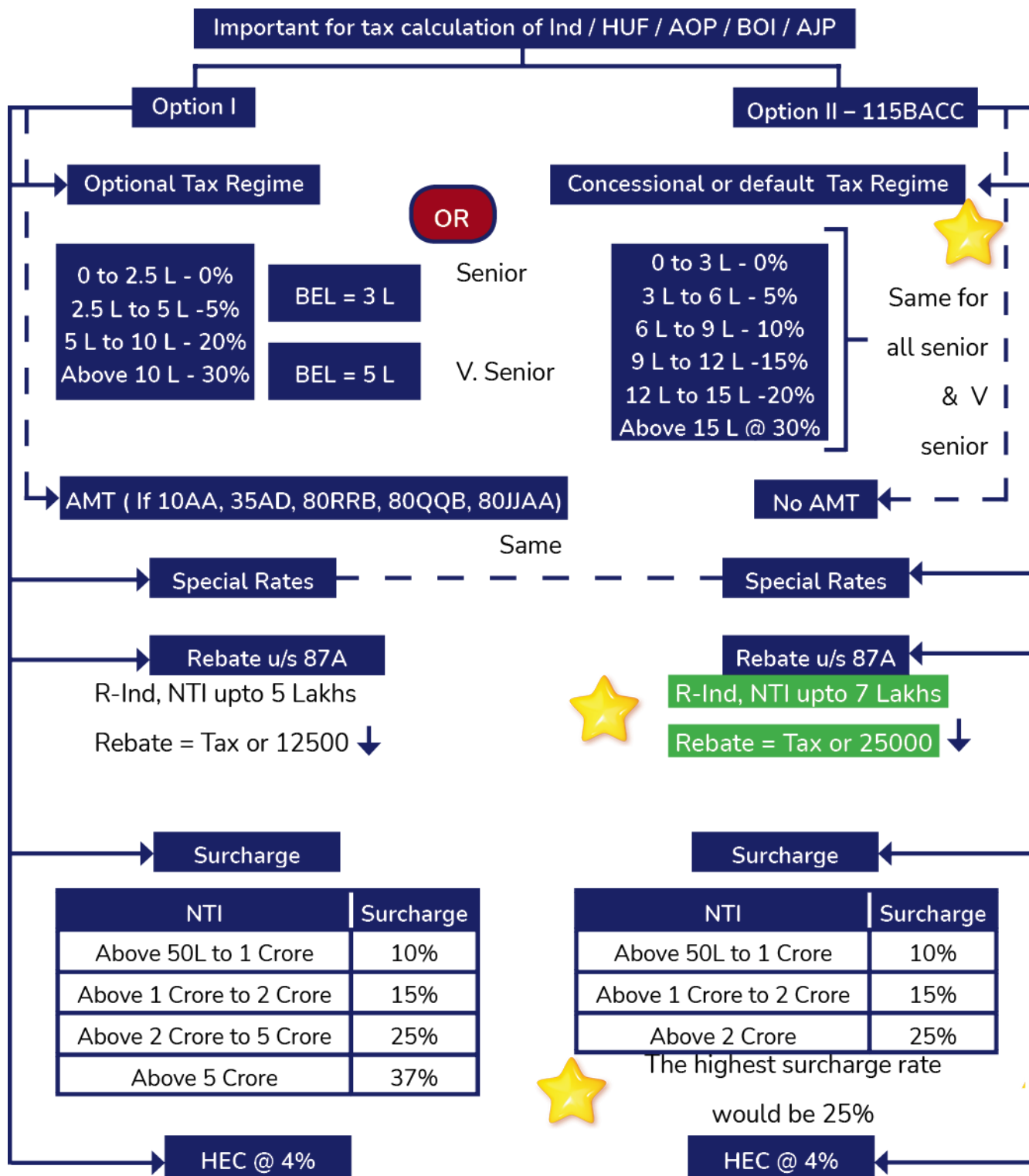
In case the Individual/HUF/AOP/BOI and Artificial Juridical Person pays tax under default tax regime under section 115BAC

	Particulars	Rate of surcharge on income tax	Example	
			Components of total income	Applicable rate of surcharge
i.	Where the total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 50 lakhs but ≤ ₹ 1 crore	10%	<b>Example</b> <ul style="list-style-type: none"> <li>• Dividend ₹ 15 lakhs;</li> <li>• STCG u/s 111A ₹ 15 lakhs;</li> <li>• LTCG u/s 112 ₹ 25 lakhs;</li> <li>• LTCG u/s 112A ₹ 20 lakhs; and</li> <li>• Other income ₹ 25 lakhs</li> </ul>	Surcharge would be levied@10% on income-tax computed on total income of ₹ 1 crore.
ii.	Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 1 crore but ≤ ₹ 2 crore	15%	<b>Example</b> <ul style="list-style-type: none"> <li>• Dividend income ₹ 10 lakhs;</li> <li>• STCG u/s 111A ₹ 35 lakhs;</li> <li>• LTCG u/s 112 ₹ 50 lakhs;</li> <li>• LTCG u/s 112A ₹ 35 lakhs; and</li> <li>• Other income ₹ 55 lakhs</li> </ul>	Surcharge would be levied@15% on income-tax computed on total income of ₹ 1.85 crores.
iii.	Where total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 2 crore	25%	<b>Example</b> <ul style="list-style-type: none"> <li>• Dividend income ₹ 51 lakhs;</li> <li>• STCG u/s 111A ₹ 44 lakh;</li> </ul>	Surcharge@15% would be levied on income-tax on:

## 13. Computation Of Total Income And Tax Payable

	<p>The rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A</p>	<p>Not exceeding 15%</p>	<ul style="list-style-type: none"> <li>• LTCG u/s 112 ₹ 42 lakhs;</li> <li>• LTCG u/s 112A ₹ 55 lakh; and</li> <li>• Other income ₹ 6 crores</li> </ul>	<ul style="list-style-type: none"> <li>• Dividend income of ₹ 57 lakhs;</li> <li>• STCG of ₹ 44 lakhs chargeable to tax u/s 111A;</li> <li>• LTCG of ₹ 42 lakhs chargeable to tax u/s 112; and</li> <li>• LTCG of ₹ 55 lakhs chargeable to tax u/s 112A.</li> </ul> <p>Surcharge@25% would be leviable on income-tax computed on other income of ₹ 6 crores included in total income</p>
iv.	<p>Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) &gt; ₹ 2 crore in cases not covered under (iii) above</p>	15%	<p><b>Example</b></p> <ul style="list-style-type: none"> <li>• Dividend income ₹ 40 lakhs;</li> <li>• STCG u/s 111A ₹ 35 lakhs;</li> <li>• LTCG u/s 112 ₹ 42 lakhs;</li> <li>• LTCG u/s 112A ₹ 50 lakhs; and</li> <li>• Other income ₹ 1.10 crore</li> </ul>	<p>Surcharge would be levied@15% on income-tax computed on total income of ₹ 2.77 crore.</p>

# 13. Computation Of Total Income And Tax Payable



Note : Under option I and option II enhanced rate of surcharge of 25% or 37% would not apply to STCG u/s111A, LTCG u/s112A, LTCG u/s 112

## Tax Planning in respect of Salary Income

### 1. Salary Structure:

## 13. Computation Of Total Income And Tax Payable

- a. An employer may plan the salary structure of employees keeping in view the deductions and exemptions available under the Act.
- b. The employer may structure the salary by including various allowances and perquisites in addition to basic salary, to enable the employee to optimise his tax liability.
- c. Employer should plan the Salary Structure considering the tax regime opted.

**2. Employees' welfare schemes:** There are several employees' welfare schemes such as recognised provident fund, approved superannuation fund, gratuity fund. Payments received from such funds by the employees are totally exempt or exempt up to significant amounts.

	Particulars	Statutory Limit
1.	Gratuity	20,00,000
2.	Leave Salary	25,00,000
3.	Employers Contri to RPF, NPS, Superannuation Fund	Exempt up to 7,50,000
4.	VRS	5,00,000

### 3. Insurance Policies:

- a. LIP paid by the employer = Perquisite
- b. Keyman Insurance paid by employer and assigned to Employee = Perquisite
- c. Health Insurance paid by the Employer = Exempt Perquisite
- d. Accident Insurance paid by the Employer = Not a perquisite

### 4. Dearness Allowance, Dearness Pay:

- a. The employer should ensure that dearness allowance and dearness pay should form part of "salary."
- b. If dearness allowance, dearness pay etc. are included in salary, some benefits will also increase leading to higher amounts in the hands of the employee.

### 5. Leave Travel Facility:

- a. If the employee exercises the option to shift out of the default tax regime, the employer should avail leave travel facility.
- b. Refer the table page No. 255

### 6. Rent free accommodation / House Rent Allowance (HRA):

- a. The employee should work out his tax liability and net cash flow under both the options and then, decide on whether to receive HRA or choose a rent free accommodation.

## 13. Computation Of Total Income And Tax Payable

b. Refer Illustration 1 of ICAI Module:

Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of ₹ 50,000 p.m. He has received transport allowance of ₹ 15,000 p.m. and house rent allowance of ₹ 20,000 p.m. from the company for the P.Y. 2023-24. He has paid rent of ₹ 25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of ₹ 2,10,000 for housing loan taken for the construction of his house in Mumbai. The construction of the house is completed in March, 2024 and his parents live in that house.

### Other Information

- Contribution to PPF - ₹ 1,50,000
- Contribution to pension scheme referred to in section 80CCD - ₹ 50,000
- Payment of medical insurance premium for father, who is of the age of 65 - ₹ 55,000
- Payment of medical insurance premium for self and spouse - ₹ 32,000

Compute the total income and tax liability of Mr. A for the A.Y. 2024-25 in the most beneficial manner.

**7. Uncommuted/Commutated pension:** Uncommuted pension is fully taxable. Therefore, the employees should get their pension commuted. Commuted pension is fully exempt from tax in the case of government employees and partly exempt from tax in the case of non-government employees.

**8. Provident Fund:** Accumulated balance due and becoming payable to an employee participating in a Recognized Provident Fund (RPF) would be exempt, where an employee who is a member of a recognised provident fund

**9. Other retirement benefits:** Incidence of tax on retirement benefits like leave encashment, commuted pension, accumulated balance of unrecognized provident fund is lower if they are paid in the beginning of the financial year.

The employer and the employees may mutually plan in such a way that retirement takes place in the beginning of a financial year.

**10. Tax free perquisites:** The following are the perquisites which are exempt from tax-

Use of computers and laptop by employee;

Medical facility in employer's own hospital or a public hospital or

Government or other approved hospital;

Educational benefit in a school run by employer provided value of benefit does not exceed ₹ 1,000 per month per child.

## 13. Computation Of Total Income And Tax Payable

### 11. Considerations for salary structuring:

It may be noted that a salaried person has an option to choose whether to pay tax under the default tax regime under section 115BAC or shift out of the default tax regime and pay tax under normal provisions of the Act in each previous year.

So he should wisely choose the option

### Important Instructions for Exams

1. Calculate Tax Liability assuming assessee does not opt for 115BAC.

Ans) Tax as per normal provision.

2. Calculate Tax Liability.

Ans) i) Tax as per normal provisions.

ii) 115BAC (choose whichever is lower)

3. Calculate Tax Liability assuming assessee wants to opt for 115BAC.

Ans) i) Normal ii) 115 BAC

(choose whichever is lower)

### Combined Problems - From Practice Manual/Module

Q 1. Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2024 revealed the following information:

1. The net profit was Rs 11, 20,000.
2. The following incomes were credited in the profit and loss account:
  - a) Dividend from UTI Rs 22,000.
  - b) Interest on debentures Rs 17,500.
  - c) Winnings from races Rs 15,000.
3. 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 Rs 8000. Closing Stock Rs 12000
4. Rs 1, 00,000 was debited in the profit and loss account, being contribution to an University approved and notified under Section 35 (1) (ii).
5. Salary includes Rs 20,000 paid to his brother which is unreasonable to the extent of Rs 2500.
6. Advertisement expenses include 15 gift packets of dry fruit costing Rs 1000 per packet presented to important customers.
7. Total expenses on car was Rs 78,000. The car was used both for business

## 13. Computation Of Total Income And Tax Payable

and personal purpose.  $\frac{3}{4}$  th is for business purposes.

8. Miscellaneous expenses including Rs 30,000 paid to A & Co., a goods transport operator in cash on 31-1-2024 for distribution of the company's product to the warehouses.
9. Depreciation debited in the books was Rs 55,000. Depreciation allowed as per Income-tax Rules, 1962 was Rs 50,000.
10. Drawings of Rs 10,000 debited in the books.
11. Investment in NSC Rs 15, 000 debited in the books.

Compute the total income Mr. Y for the assessment year 2024-25 under optional tax regime as per normal provisions of the Act. (Module question 9-34) (HW)  
**[ANSWER: - TOTAL INCOME=11,61,000]**

**Q2.** Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure account for the year ending March 31<sup>st</sup> 2024 is as under:

Particulars	Amt (Rs)	Particulars	Amt (Rs)
To Medicine Consumed	35,38,400	By Consultation & Medical Charges	58,85,850
To staff salary	13,80,000	By Income tax refund (principal 5000, Rs interest 450)	5,450
To Clinic consumables	1,10,000	By Dividend from units of UTI	10,500
To rent paid	90,000	By winning from game show on TV (net of TDS of Rs.15000)	35,000
To Administrative expenses	2,55,000	By rent	27,000
To Amount paid for Scientific research association approved under section 35	1,50,000		
To Net profit	4,40,400		
	<b>59,63,800</b>		<b>59,63,800</b>

- i. Rent paid includes Rs.30,000 paid by cheque towards rent for her residential house in Surat



## 13. Computation Of Total Income And Tax Payable

- ii. Clinic equipments are:  
1/4/2023 opening WDV 5, 00,000  
7/12/2023 Acquired (cost) by cheque 2, 00,000
- iii. Rent received relates to property situated at Surat. Gross Annual value Rs-27,000. The Municipal Tax of Rs-2000 paid in December 2023 has been included in "administrative expenses".
- iv. She received salary of Rs-7,500 p.m. from "Full Cure Hospital" which has not been included in the Consultation & Medical Charges
- v. Dr. Niranjana availed a loan of Rs-5,50,000 from a bank for higher education of her daughter. She repaid principal of Rs-1,00,000 and interest thereon Rs-55,000 during the year 2023-24
- vi. She paid Rs-1,00,000 as tuition fees (not in the nature of development fees/donation) to the university for full time education of her daughter
- vii. An amount of Rs-28,000 has also been paid by cheque on 27<sup>th</sup> March 2024 for her medical insurance premium.

From the above compute the total income of Dr.Smt Niranjana for the A. Y. 2024-25 under the default tax regime and optional tax regime as per the normal provisions of the Act. (Module Question9-31) (HW)

**Q 3.** From the following details, compute the total income and tax liability of Siddhant aged 31 years of Delhi both as per section 115BAC and as per the regular provisions of the Income- tax Act, 1961 for the A.Y.2024-25. Advise Mr. Siddhant whether he should opt for Section 115BAC: (Module question 9-37)

Salary including dearness allowance	4,35,000
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 Rs 4, 75,000 in April, 2016, which was financed by a loan from Life Insurance Corporation of India of Rs 1, 60, 00@ 15% interest, his own savings of Rs 65,000 and a deposit from a nationalized bank for Rs 2, 50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was Rs 3,500 per month. The

## 13. Computation Of Total Income And Tax Payable

following particulars are relevant:

- a) Municipal taxes paid by Mr. Siddhant Rs 4300(per annum)
- b) House insurance Rs 860
- c) He earned Rs 2700 in share speculation business and lost Rs 4,200 in cotton speculation business.
- d) In the year 2020-21, he had gifted Rs. 30,000 to his wife and Rs. 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest@19% pa
- e) Siddhant received a gift of Rs. 30,000 each from four friends.
- f) He contributed Rs. 50,000 to Public Provident Fund.

**[Answer: - Normal provision Total Income =5,03,390 Tax =13,710 115BAC Total Income =5,54,890 Tax=NIL]**

*Q.4 Miss Sakshitha, a resident Individual aged 32 years furnishes the following particulars relating to the year ended 31/03/2024*

a) Analysis of her bank account in her ledger reveals the under mentioned data:

i. Winnings from a TV show game (net)	70,000
ii. Gift received from mother's father	80000
iii. Gift received from Ramya, a close friend	60,000
iv. Interest on capital received from the Vidyut & Co. a partnership firm in which she is a partner (@15%pa)	3,00,000
v. Rent received from a vacant plot of land	2,00,000
vi. Amount received from the Sharks Pvt.Ltd For a house at Salem for which she had been in negotiation for enhanced rent 3 years back. This has not been taxed in any earlier years. This house was however sold off in March ,2022	1,50,000
vii. Amount received under keyman Insurance Policy	2,20,000
viii. Amount forfeited by a buyer of her vacant plot since the buyer could not finalize the deal as per agreement	3,10,000

- b) Donation given in cash to charitable trust registered under sec 12AA - Rs 12,000
- c) She owns agricultural land at Colombo, SriLanka. She has derived agricultural income therefrom -Rs.1,80,000
- d) i) Public provident fund paid in the name of her minor daughter Rs. 75,000  
ii) Interest credited in the said PPF account during the year Rs. 8,900
- e) Share of profit received from the Vidyut & Co. Rs.1,90,000 You are required to compute the total income of the assessee and the tax payable for the AY2024-25 Computation should be made under proper heads of income. Assessee has not opted for 115 BAC (November 2018) (HW)

**Q.5) Mr. Rajiv, aged 50 years, a resident individual and practicing Chartered**

## 13. Computation Of Total Income And Tax Payable

Accountant, furnishes you the receipts and payments account for the financial year 2023-24.

### Receipts and Payments Account for A.Y. 24-25

Receipts	Amt (Rs)	Payments	Amt (Rs)
Opening balance (1/4/2023) Cash on hand & at bank	12,000	Staff salary, bonus and stipend to articled clerks	21,50,000
Fee from professional services (Gross)	59,38,000	Other administrative expenses	11,48,000
Rent	50,000	Office rent	30,000
Motor car loan from Canara bank @9%pa	2,50,000	Housing loan repaid to SBI (includes interest of 88000)	1,88,000
		Life insurance premium (10% of sum assured)	24,000
		Motor car (acquired in Jan 2024 by A/c payee cheque)	4,25,000
		Medical insurance premium (for self & wife) (paid by A/C payee cheque)	18,000
		Books bought on 1/7/2023 (annual publications by A/c payee cheque)	20,000
		Computer acquired on 1/11/2023 by A/c payee cheque (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31/3/2024) Cash on hand & at bank	19,15,000
	<b>62,50,000</b>		<b>62,50,000</b>

Following further information is given to you:

- (1) 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, when the housing loan was taken.
- (2) 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.
- (3) The written down value of assets as on 1-4-2023 are given below:

Furniture & Fitting	Rs. 60,000
Plant & Machinery s (Air-conditioners, Photocopiers, etc.)	Rs. 80,000
Computers	Rs. 50,000

**Note:** Mr. Rajiv follows regularly the cash system of accounting. Compute the total income of Mr. Rajiv for the assessment year 2024-25. Assuming that he has shifted out of the default tax regime under section 115BAC: (module question 9-35) (HW)

## 13. Computation Of Total Income And Tax Payable

Q.6) Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2024 reads as follows (module question) [ANSWER: - TOTAL INCOME = TAX=] HW question

Expenditure	Rs	Income	Rs	Rs
Salary to staff	15,50,000	Fees earned:		
Stipend to articled assistants	1,37,000	Audit	27,88,000	
		Taxation services	15,40,300	
		Consultancy	12,70,000	55,98,300
Incentive to articled Assistants	13,000	Dividend received on shares of X Ltd. An Indian company (Gross)		10,524
Office rent	12,24,000	Income from UTI (Gross),		7,600
Printing & stationery	12,22,000	Honorarium received  from various institutions for valuation  of answer papers		15,800
Meeting, seminar and Conference	31,600	Rent received from residential flat let out		85,600
Purchase of car (for official use)	80,000			
Repair, maintenance and petrol of car	4,000			
Travelling expenses	5,25,000			
Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
<b>Total</b>	<b>57,17,824</b>	<b>Total</b>		<b>57,17,824</b>

## 13. Computation Of Total Income And Tax Payable

### *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 Rs. 10,500.*
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt.*
- (iv) Repairs and maintenance of car include Rs. 2,000 for the period from 1-10-2023 to 30-09-2024.*

- (v) Salary includes Rs. 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 Rs. 32,000 which was within the RBI norms.
  - (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amount to Rs. 5,000 and Rs. 10,000, respectively, paid in cash.
  - (viii) She invested an amount of Rs. 10, 000 in National Saving Certificate.
  - (ix) She has paid Rs. 70,000 towards advance tax during the P.Y. 2023-24.
- Compute the total income and tax payable by of Ms. Purvi for the A.Y. 2024-25 in a most beneficial manner. (HW Question)

**Q7)** Ramdin aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31-03-2024 (module question 9-38 12) HW question

- 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 Rs. 10,000 was given by employer on his 25 <sup>th</sup> wedding anniversary.	
- Music System purchased on 01-04-2023 by the company for Rs. 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 Rs. 6,500 p.m. Books of account are not maintained.	
- Received interest of Rs. 5,860 on bank FD Rs on 24-04-2023 and interest of Rs. 6,786 (Net) from debentures of Indian Companies on 5-5-2023.	
- Made payment by cheques of Rs. 15,370 towards premium of Life Insurance policies and Rs. 22,500 for Mediclaim Insurance policy for self and spouse.	

## 13. Computation Of Total Income And Tax Payable

– Invested in NSCRs Rs. 30,000 and in FDR of SBI for 5 years Rs. 50,000

– Donations of Rs. 11,000 to an institution approved u/s 80G and of Rs. 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute his total income and tax payable thereon for the A.Y. 2024-25. Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime under section 115BAC. (HW)

Q.8) Balamurugan furnishes the following information for the year ended 31-03-2024:

Particulars	Rs.
Income from textile 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 u/s 112	70,000

Compute his total income, tax liability and advance tax obligation under default tax regime under section 115BAC. (Module question 9.35) (HW)

Q.9) From the following particulars furnished by Mr. X for the year ended 31-3-2024, you are requested to compute his total income and tax payable for the assessment year 2024-25, assuming that he opts out of the default tax regime under section 115BAC.

- (a) Mr. X retired on 31-12-2023 at the age of 58, after putting in 26 years and 1 months of service, from a private company at Mumbai.
  - (b) He was paid a salary of Rs. 25,000 p.m. and house rent allowance of Rs. 6,000 p.m. He paid rent of Rs. 6,500 p.m. during his tenure of service.
  - (c) On retirement, he was paid a gratuity of Rs. 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.
  - (d) 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 Rs. 3,15,000 was received by him in this regard. His average salary for last 10 months may be taken as Rs. 24,500. Employer allowed 30 days leave per annum.
  - (e) After retirement, he ventured into textile business and incurred a loss of Rs. 80,000 for the period upto 31-3-2024.
- (a) Mr. X has deposited Rs. 1,00,000 in public provident fund. (Module question 9.39) (HW)

## 13. Computation Of Total Income And Tax Payable

*Q-10) Mr. X an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for production of washing machines. The unit fulfills all the conditions of section 10 AA of the Income - tax Act, 1961. During the financial year 2022-23. 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 Rs.75 lakhs (including cost of land Rs. 10 lakhs). The warehouse became operational with effect from 1 st April 2023 and the expenditure of Rs. 75 lakhs was capitalized in the books on that date. Relevant details for the financial year 2023-24 are as follows:*

<i>particulars</i>	<i>Rs.</i>
<i>Profit of unit located in SEZ</i>	<i>40,00,000</i>
<i>Export turnover received in india in convertible foreign exchange on or before 30.9.2024</i>	<i>80,00,000</i>
<i>Domestic sales of above unit</i>	<i>20,00,000</i>
<i>Profit from operation of warehousing facility (before considering deduction Under Section 35AD)</i>	<i>1,05,00,000</i>

*Compute income -tax (including AMT under Section 115JC) liability of Mr. X for Assessment Year 2024-25 both as per section 115BAC and as per regular provisions of the income - tax Act, 1961 for Assessment Year 2024-25. Advise Mr. X whether he should pay tax under default tax regime or normal provision of the Act. (Module question 9.40)*

*Q-11 The assessee is non-corporate-assessee for the assessment year 2024-23. Income of the assessee is calculated as follows:*

	<i>Rs.</i>
<i>Net profit as per profit and loss account</i>	<i>67,60,000</i>
<i>Add: Excess depreciation (i.e., excess of depreciation debited to profit and loss account over depreciation available under section 32)</i>	<i>2,000</i>
<i>Add: Disallowance under section 37(1) and under section 43B</i>	<i>60,000</i>
<b><i>Total</i></b>	<b><i>68,22,000</i></b>
<i>Less: Deduction under section 10AA</i>	<i>65,00,000</i>
	<b><i>3,22,000</i></b>
<i>Long-term Capital Gain (On transfer of Gold)</i>	<i>1,50,000</i>



## 13. Computation Of Total Income And Tax Payable

<i>Gross Total Income</i>	<b>4,72,000</b>
<i>Less: Deductions</i>	
<i>Under Section 80G</i>	<b>3,000</b>
<i>Net Income</i>	<b>4,21,000</b>

*Calculate his tax liability*



### Contents of chapter (Sections 207 to 219)

C1-- Introduction

C2-- Due dates of payments of Advance tax:

C3-- Interest for non-payment / short payment of Advance tax

C4-- Short payment of Advance Tax in case of Capital Gain/Casual Incomes

### Concept 1: Introduction

#### 1.1) Tax is recovered from the assessee in following ways

- 1) Advance Tax
- 2) Tax Deduction at source
- 3) Tax collection at source.

*Income of the previous year is taxable in the following assessment year. However assessee is required to pay advance tax during the previous year itself on the basis of estimated income Sections 207.*

#### 1.2) Direct Payment of tax by assessee:

a) In following cases tax is directly payable by assessee Section 191(1).

- 1) on Income on which no TDS is required to be deducted.
- 2) on income where TDS is required to be deducted but is not actually deducted.

b) Section 191(2)

*In case of an employee who has been allotted ESOP's by an eligible startup. The allotment is free of cost or at concessional rate then the employee must pay tax within 14 days from the earliest of the following dates*

- 1) *after the expiry of 48 months from the end of the relevant assessment year.*
- 2) *from the date of the sale of such specified security or sweat equity share by the assessee or*
- 3) *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 shares.*

## 1.3) What is Advance Tax? And why it is paid in advance?

Tax is a major source of fund for any Government in the world. In India as per general provision of the Income Tax Act, 1961 every person whose income is exceeds threshold exemption limit is liable to pay income tax. However for speedy and efficient tax collection a mechanism is developed by government in the form of Advance Tax. Advance tax is a payment mechanism in which tax is deposited by assessee in installment instead of entire amount deposited at the end of financial year. For assessee's point of view advance tax is helpful for fund management as the tax liability is divided in installments.

Advance Tax = Tax on current income - [Tax Deduction at Source (T.D.S) + Tax Collection at Source (T.C.S.)]

May 2016

## 1.4) Applicability of Advance Tax (section 208)

- 1) All taxable incomes (including capital Gains, Winnings from lotteries, Crossword puzzle, etc.) are liable for Advance Tax.
- 2) Obligation to pay Advance Tax arises where advance tax payable in a year is **Rs.10,000/- or more. [Section 208]**
- 3) The provisions relating to advance tax apply to **all assesses**
- 4) W.e.f AY 2017-18 -Assessee covered **u/s 44AD** is to pay advance tax of the whole amount in one installment on or before the **15th March** of the financial year
- 5) W e f AY 18-19 even assessee covered u/s **44ADA** to pay advance tax of whole amount on or before **15<sup>th</sup>** of March every year.

Nov 2017

### Exemption:

6) However, for senior citizens who do not have income from Profits and Gains of business & profession need not pay advance tax. Such senior citizens may discharge their liability by payment of self assessment tax. (W e f 1.4.2012) [Section 207(2)]

### Example:

Particulars	A	B	C
Tax Liability	131000	131000	131000
Less: TDS	121000	125000	95000
Tax Payable	10000	6000	36000
Advance Tax Applicability			

1.5) Procedure for computing advance tax payable [Section 209]

1. An assessee has to **first estimate his current income** (under five heads of income after Applying the provisions of aggregation of income and set-off or carry forward of losses and Allowing deductions under Chapter VI-A).
2. The assessee shall then compute the income-tax payable on his current income **at the rates in force in the financial year**.
3. The tax so calculated shall be reduced by the amount of tax which has been actually Deducted at source.
4. Net agricultural income is also to be considered for the purpose of computing advance tax In case of specified classes of assesses.

The specified percentage of advance tax shall be paid by the assessee on his accord on or before the due date of each installment. A person who pays any installment or installments may, increase or reduce the amount of advance tax payable in subsequent installment(s) in accordance with his estimate of current income and the advance tax payable thereon [Sections 210(1) and (2)].

1.6) Payment of Advance Tax [Sec. 210]:-

Payment of Advance tax may be made in the following ways

- 1) **By the Assessee on his own** (point 1.4)
- 2) **In pursuance of Notice of Assessing Officer**
- 3) **In pursuance of revised order of Assessing Officer**

If the taxpayer has not paid advance tax, then the A.O. can pass an order specifying the Installments in which advance tax should be paid. A.O. can pass this order only up to the last day of February. The assessee can submit a lower or higher estimate of income and submit tax accordingly.

**Concept 2: Due dates of payments of Advance Tax: Sec-211**

Advance tax will be paid in **four installments of 15%, 45%, 75% and 100%** of tax payable on the current income by **15th June, 15th September, 15th December and 15th March**, respectively in case of all assesses.

Earlier up to AY 2016-17 the assessee other than corporate assessee paid Advance Tax in three installments.

Due date (of financial year on or before)	All assesses	Assesses covered u/s 44AD/44ADA
June 15 <sup>th</sup>		
September 15 <sup>th</sup>		
December 15 <sup>th</sup>		
March 15 <sup>th</sup>		

Payment of advance tax made before 31st March of the financial year shall be treated as advance tax Paid.

**Notes:-**

1. If due date of advance tax installment is holiday, advance tax paid on the subsequent working day is treated as paid on the due date.
2. When advance tax is paid by cheque, payment would be deemed to have been made on the Date when the cheque was handed over, provided the cheque is cleared in due course. The fact that cheque so delivered was encashed few days later is totally immaterial.

**Concept 3: Interest for non-payment / short payment of Advance Tax**

3.1) Penalty for non-payment of Advance Tax

- 1) There is no penalty for non-payment of Advance Tax.
- 2) However assessee is liable to compensate delay / non-payment by way of simple interest.

3.2) Interest payment for deferment of Advance Tax: (Sec. 234B):-

If advance tax is not paid or the amount of advance tax paid is less than 90% of the assessed tax, the assessee shall be liable to pay simple interest @1% p.m. u/s 234B from 1st day of assessment year up to date of deposit tax & interest.

3.3) Interest payment for deferment of Advance Tax: (Sec. 234C):-

Interest under this section is liable for deferment of advance tax beyond the due dates

## Basic provisions

Circumstances in which Interest is payable u/s 234C	Rate of interest	Period	Amount on which interest is to be paid
1) Where advance tax Paid on or 15 <sup>th</sup> June is less than 12% of tax due on returned Income	Simple interest @ 1% p.m.	Three months	15% of tax due on returned income minus advance tax paid upto 15 <sup>th</sup> June
2) Where advance tax paid on or before 15 <sup>th</sup> September is less than 36% of tax due on returned income	Simple interest @ 1% p.m.	Three months	45% of tax due on returned income minus total advance tax paid upto 15 <sup>th</sup> September
3) Where advance tax Paid on or before 15 <sup>th</sup> December is less than 75% of tax due on returned income	Simple interest @ 1% p.m.	Three months	75% of tax due on returned income minus total advance tax paid upto 15 <sup>th</sup> December
4) Where advance tax Paid on or before 15 <sup>th</sup> March is less than 100% of tax due on returned income	Simple interest @ 1% p.m.	One months	100% of tax due on returned income minus advance tax paid upto 15 <sup>th</sup> March

Wef AY 20-21, while calculating interest u/s 234C, relief of tax allowed u/s 89 shall be deducted, now wef AY 21-22 tax credit u/s 115JD should also be deducted.

In case of taxpayers who opted for presumptive taxation scheme of Section 44AD/44ADA interest shall be levied if advance tax paid on or before 15<sup>th</sup> March is less than 100% of advance tax payable.

### Illustration

Q.1) Mr. Khushal is running a garments shop. Tax Liability of Mr. Khushal is Rs 65,500. He has paid advance tax as given below:

- |  |   |
|--|---|
| 1) Rs. 8,000 on 15 <sup>th</sup> June,     | 4) Rs. 12,000 on 15 <sup>th</sup> December, |
| 2) RS 6000 on 16 <sup>th</sup> June.       | 5) Rs. 14,500 on 15 <sup>th</sup> March.    |
| 3) Rs. 5000 on 15 <sup>th</sup> September, | 6) Rs 4000 On 31 <sup>st</sup> March.       |

Mr. Khushal has not opted for presumptive taxation scheme of section 44AD. Will he be liable to pay interest under section 234B & 234C, if yes, then how much?







May 2016

3.4) Interest u/s 234B

- 1) It is attracted for *non-payment of Advance Tax* or *if Advance Tax paid is less than 90% Of assessed tax*.
- 2) The interest liability would be *1% per month or part of the month* from 1st April following The financial year upto the date of determination of income under section 143(1).
- 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 tax deducted or collected at source.
- 5) While calculating the interest relief u/s 89 shall be reduced wef AY 20-21. Now wef AY 21-22 tax credit u/s 115JD should also be deducted.

*Calculating 234B for question 1*

*Q. Mr. Jay having total income of 870000 did not pay advance tax during the previous year 2023-24 . He wishes to pay the whole of the tax along with interest if any on filing of return in the month of July 2024. What is the total tax which Mr. jay has to deposit as self assessment tax along with interest , if he files the return on 29.07.2024. Assume that he does not opt for Sec 115BAC.*

**Concept 4: Short payment of Advance Tax in case of Capital Gain/Casual Incomes [First Proviso to section 234C (1)]**

1) No interest u/s 234C will be levied in respect of any shortfall in the payment of advance Tax due on the returned income if:

1. The shortfall is on account of under estimate or failure to estimate the amount of capital Gains [short-term or long-term]

2. Income of the nature referred to in Section 2(24) (ix) i.e. winning from lotteries, Crossword puzzles, gambling etc. and

3. Income under the head PGBP arises under the said head for the first time.

4. Amount of dividend income u/s 2(22)(a)/(b)/(c)/(d) excluding sec 2(22)(e)

However, the assessee has paid the whole amount of tax payable in respect of such income As part of the remaining installments of advance tax which are immediately due, or if no installment is due, then such tax is paid before 31st March.

**Budget Quotes (1st February 2021)**

Aforesaid relaxation is to insulate the taxpayers from payment of interest under sec 234C of the Act in cases where accurate determination of advance tax liability is not possible due to intrinsic nature of income. Therefore, after considering various representations favourably, it is proposed to include dividend income in the above exclusion except dividend u/s 2(22)(e )

**-Piyush Goyal**

**194R**

Section 28 - PGBP.

1) any benefits / perq / gifts arising from business or profession - taxable under PGBP

e.g. gifts from clients  
 → travel voucher for achieving sales target etc

2) Qn this there is TDS v/s 194R

- Clarifications by CBDT Circular for 194R

1) Resident w/e 1/7/22  $\xrightarrow{\text{perq (Cash/Non Cash) arising out of business}}$  Resident  
 limit 20,000  
 rate 10%

2) cash benefit TDS applicable.

3) non cash benefit TDS ✓  
 eg gift / travelling

4) benefit may be a Capital asset TDS ✓  
 eg car / land / immovable

5) benefit - cash + kind and cash component is not enough to deduct TDS

eg

Cash. (cheq)	5000
+ Gold	95000
	<u>1,00,000</u>

TDS @ 10% = 10,000

(i) Receiver can pay advance tax  
 challan of 10,000 - show it to deductor  
 then deductor need not deduct  
 TDS and give reference of the challan  
 in TDS Return

(ii) If deductor pays TDS from his pocket  
 then the amt of TDS will also treated as  
 value of benefit v/s 194R.

benefit - Cash 5000  
 - Gold 95000  
 TDS - 10,000

---

1,10,000

6) There is no need for deductor to check whether  
 the benefit given to deductee is taxable in his hands or not.

7

Summary

Insurance to (deductor) gives of benefit

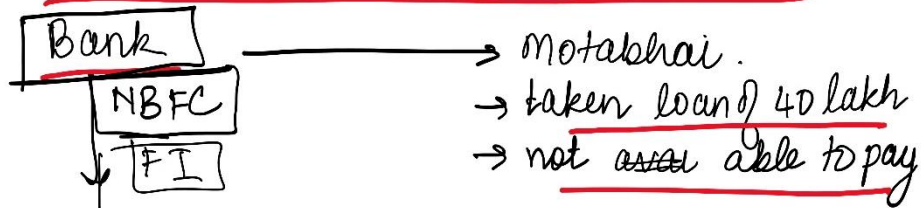
- benefit → agent
- Cash TDS ✓
- non cash TDS ✓
- Cap asset TDS ✓
- no need to check whether the benefit is taxable or not for the agent.

deductee: receiver of benefit. For agent. this benefit will be Income.

→ Car 10,00,000  
TDS = 1,00,000 - ?

deductee to pay & take - challan copy  
deductor pays from pocket then it should be added in perq.

8 Sometimes bank - do loan settlement.



recovers 35 lakhs as final payment.

Motabhai (POV) → loan of 40 lakh ✓  
→ pays 35 lakhs ✓  
→ benefit = 5 lakhs.

5 lakhs is Motabhai's Income

Loan A/c - Dr 40,00,000  
To Bank 35,00,000  
To Income 5,00,000

Bank. is asking - Should we deduct TDS?  
Ans - given by CBDT - no need to deduct TDS.

9) Social Influences

9a) eg Audi → Car - Sonali Bendre  
 no benefit } drove + gave review  
 no TDS. } then she returned Car

9b) eg Cosmetics worth 2 lakh → Chameli uses + review on social media

Value of Benefit = Price for customers

products retained by her, then it benefit TDS applicable.

10) Is 194R applicable on bonus shares or right shares? - No

11) How to calculate the value of benefit?

a) If asset is purchased

Value of benefit = Purchase price

eg Insurance Company purchased a car for 10,00,000 and then gifted to the agent.

Value of perquisite = 10,00,000  
 TDS = 1,00,000

b) If asset is manufactured by provider of benefit

Value of benefit = Price it charges to the customers

eg Mobile manufacturer gifts 2 mobile phone  
 mfg cost of each phone = 21,500

price charged from customer = 35,000 (each phone)

Value of Benefit = 70,000  
 TDS = 7,000.

*For Theory Refer chart book*

*Know Your Concepts*

1) Discuss whether the person making payment is liable to deduct tax at source in the following circumstances. Also compute the amount of tax to be deducted.

1. Rent paid for hire of machinery by B Ltd. to Mr. Raman Rs. 2,60,000 (module question 7.130)

2. Fee paid to Dr. Srivatsan by Sundar (HUF) Rs. 35,000 for surgery performed on a Member of the family. (Module)

3. Rent paid Rs. 4,00,000 to Mr. A and his brother jointly for being equal co-owners of a property.

4. ABC and Co. Ltd. paid Rs. 19,000 to one of its Directors as sitting fees (Module question)

5. Mr. X sold his house to Mr. Y for 60 lacs?

6. Winning by way of jackpot in a horse race Rs. 1, 00,000.

## 14. Tax Deduction At Source and Introduction to Tax Collection At Source

7. *Payment made by a firm to sub-contractor Rs. 3,00,000 with outstanding balance of Rs. 1, 20,000 shown in the books as on 31-03-2024. (Module question 7-130)*
8. *Rent paid for plant and machinery Rs. 2,50,000 by a partnership firm having sales turnover of Rs. 20,00,000 and net loss of Rs. 15,000.*
9. *Payment made to Ricky Ponting, an Australian cricketer, by a newspaper for contribution of articles Rs. 25,000.*
10. *Payment of 27,000 made to Shane Warne, an Australian cricketer, by an Indian newspaper agency for contribution of articles in relation to the sport of cricket.*
11. *Rent of Rs. 1, 70,000 paid by a partnership firm for use of plant and machinery.*
12. *Winning from horse race Rs. 1, 50,000.*
13. *2,00,000 paid to Mr. A, a resident individual, on 22-02-2024 by the State of Uttar Pradesh on compulsory acquisition of his urban land. (Module question 7-130 3)*



## 14. Tax Deduction At Source and Introduction to Tax Collection At Source

14. Interest of Rs. 1750 paid by 'His tax Ltd'. To Yash & Rs. 4500 to his HUF by way of account payee cheque on account of debentures of the company held by them separately. Debentures of Histax Ltd. are listed in Bombay Stock Exchange.
15. Interest of Rs. 5750 paid by United Ltd. to Yamini & Rs. 4785 to Janak HUF by way of account payee cheque on account of debentures of the company held by them. Debentures of United Ltd. are not listed on a recognised stock exchange in India.
16. Interest of Rs. 47,700 on recurring deposit credited to Mr. Pritam.
17. HNY Ltd. paid Rs. 5, 00,000 to non-resident entertainer on in respect performance in an event of promotion of a new product.
18. Rs. 3, 50,000 paid to Mr. A by Delhi State Government on compulsory acquisition of his urban land. (ICAI-Supplementary)
19. Haryana Government has made a payment of Rs. 1.90 lac to Mr. Shyam as compensation for compulsory acquisition of his urban land.

## 14. Tax Deduction At Source and Introduction to Tax Collection At Source

20. Kingfisher Ltd., the employer, credited in its books of account, salary of Rs. 2,20,000 due to its employee Mr. Shivam for the month of March, 2024. Mr. Shivam has not furnished any information about his income/loss from any other head or proof of investment/payments qualifying for deduction under section 80C.
21. Commission of Rs. 25000 paid to a director by the company for standing as a guarantor to bankers.
22. PKD raised an invoice for audit fees 10, 00,000 plus 18% GST.
23. Mr. Y pays Professional Fees for consultancy to an Engineer Rs 27000 & Rs 30000 as technical fees to the same person.
24. ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y. 2023-24 - ` 20,000 on 1-5-2023 ` 25,000 on 1-8-2023 ` 28,000 on 1-12-2023 On 1-3-2024, a payment of ` 30,000 is due to Mr. X on account of a contract work. Discuss whether ABC Ltd. is liable to deduct tax at source under section 194C from payments made to Mr. X. (Module Question)

## 14. Tax Deduction At Source and Introduction to Tax Collection At Source

25. Assume the above payments are done for furniture work at residence of Mr. X

26. Mr. X paid a canteen contractor Rs 10000 two times in a year

27. Mr. X paid Rs 40000 by cheque to another contractor.

28. Rent paid for hire charges of Hire charges of Machinery Rs 234000.

29. If TDS is not Deducted then the rate on Interest =

30. If TDS is deducted but the payment is delayed the rate of interest =

31. Mr. X paid Rs 45000 to a transporter, he had furnished his PAN and declaration.

## 14. Tax Deduction At Source and Introduction to Tax Collection At Source

32. Lower or no deduction of TDS is not possible in which case?

33. On 01-10-2023, Mr. Harish made 6 months fixed deposit of Rs. 10 lakhs @9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31-03-2024. (module question) (HW)

34. On 01-06-2023, Mr. Ganesh made three nine months fixed deposits of Rs 3 lakh each carrying interest @9% with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28-02-2024. (module question)

35. On 01-10-2023, Mr. Rajesh started a 6 months recurring deposit of Rs 2, 00,000 per month @8% p.a. with PQR Bank. The recurring deposit matures on 31-03-2024. (Module question) (HW)

36. Compute the amount of Tax deduction at source on the following payments made by M/S S LTD during the financial year 2023-24 as per the provision of the Income Tax Act, 1961. (Module question 7-129 2)

Q. No	Nature of Payment
36	Payment of Rs. 2, 00,000 to Mr. "R" a transporter who owns 8 goods carriages throughout the previous year and furnishes a declaration to this effect along with his PAN. (module)

- 37 Payment of fee for technical services of 25,000 and Royalty of 20,000 to Mr. Shyam who is having PAN. (module)
- 38 Payment of 25,000 to M/s X Ltd. for repair of building. (module)
- 39 Payment of 2, 00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd. or its associates
- 40 Payment of Rs. 2, 30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.
- 41 Payment of commission of 14,000 to Mr. Y.

42 During the financial year 2023-24, the following payments/expenditure were made incurred by Mr. Raja, a resident individual (whose turnover during the year ended 31-03-2023 was Rs. 99 lacs): (module question)

a. Interest of Rs. 45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source; (module question)

b. Rs. 3,00,000 was paid as salary to a resident individual without deduction of tax at source; (module question)

c. Commission of Rs. 16,000 was paid to Mr. Vidyasagar, a resident, on 2-7-2023 without deduction of tax at source. (module question)

## 14. Tax Deduction At Source and Introduction to Tax Collection At Source

43. Ashwin doing manufacture and wholesale trade furnishes you the following information: Total turnover for the financial year (module question 7-129 1) (HW)

Particulars	Rs.
2022-23	1,05,00,000
2023-24	95,00,000

Examine whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2023-24:

Particulars	Rs.
Interest paid to UCO Bank 15-08-2023	41,000
Contract payment to Raj (2 contracts of Rs 12,000 each) on	24,000
Shop rent paid (one payee) on 21-1-2024	2,50,000
Commission paid to Baluon 15-3-2024	7,000

44. Mr. X, a Salaried individual, pays rent of Rs. 55,000 per month to Mr. Y from June 2023, Is he required to deduct tax at source? If so when is he required to deduct tax? also compute the amount of tax to be deducted at source. Would your answer change if Mr. X vacated the premises on 31st Dec 2023? Also, what would be the answer if Mr. Y does not provide his PAN to Mr. X? (Module question 7-31 illustration 7)

45. Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents. (Module question 7-39 illustration 9)(HW)

	Particulars of the payer	Nature of payment	Aggregate of payments made in the FY 2023-24
1	Mr. Ganesh an individual carrying on rental business with turnover of Rs. 2.5 crores in the P.Y 2022-23	Contract payment for repair of residential house	Rs. 5 lakhs
		Payment of commission to Mr. Vallish for business purposes.	Rs. 80,000
2	Mr. Rajesh a wholesale	Contract Payment for reconstruction	Rs. 20 lakhs in

## 14. Tax Deduction At Source and Introduction to Tax Collection At Source

	trader whose turnover was Rs. 95 lakhs in P.Y. 2022-23	of residential house (made during the period January-March 2024)	January, 2024 Rs. 15 lakhs in Feb 2024 and Rs. 20 lakhs in March 2024
3	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2024	Rs. 51 lakhs
4	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2023 for reconstruction of residential house	Rs. 48 lakhs

46) Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of Rs. 60 lakh and 15 lakh, respectively, to Mr. Y on 1.8.2023. He has purchased the house property and the land in the year 2022 for Rs. 40 lakh and Rs. 10 lakh respectively. The stamp duty value on the date of transfer, i.e. 1.8.2023, is Rs. 85 lakh and Rs. 20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians. (Module question 7.59 illustration 11)(HW)

47) Moon TV, a television Channel made payment of Rs. 50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss. Also, examine whether the provision of tax deduction at source under section 194C would be attracted if the payment was made by MOON TV for acquisition of telecasting rights of the content already produced by the production house. (Module question 7.25 illustration 5)

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## 14. Tax Deduction At Source and Introduction to Tax Collection At Source

49) Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases:

- i) Mr. X a resident is due to receive Rs. 4.50 lakhs on 31.3.2024 towards maturity proceeds of LIC policy taken on 1.4.2021, for which the sum assured is Rs. 4 lakhs and the annual premium is Rs. 1,25,000
- ii) Mr. Y, resident, is due to receive Rs. 3.95 lakh on 31.3.2024 on LIC policy taken on 31.3.2012, for which the sum assured is Rs. 3.50 lakhs and the annual premium is Rs. 26,100.
- Mr. Z, resident, is due to receive Rs. 95,000 on 1.8.2023 towards maturity proceeds of LIC policy taken on 1.8.2017 for which the sum assured is Rs. 90,000 and the annual premium was Rs. 10,000. (module question 7.59 illustration 10)(HW)

50) Mr Gupta a resident Indian is in retail business and his turnover for FY 2022-23 was 12 crores. He regularly purchases goods from another resident. Mr. Agarwal, a wholesaler and aggregate payments during the F.Y. 2023-24 was Rs.95 lakhs (20 lakhs on 1-6-2023, 25 lakhs 12-8-2023, 22 lakhs 23-11-2023, 28 lakhs on 25.3.2024) Assume that the said amounts were credited to Mr. Agarwal's accounts in the books of Mr. Gupta on the same date Mr. Agarwal's turnover for F.Y. 2022-23 was 15 crores.

(1) Based on the above facts, examine TDS/TCS implications if any under Income-Tax Act, 1961.

(2) Would your answer be different if Mr. Gupta's turnover for FY 2022-23 was Rs. 8 crores all other facts remaining the same?

(3) Would your answer to (1) and (2) change if PAN has not been furnished by the buyer or seller, as required? (Module Question 7.94 illustration 13)(HW)

51) Mr. Sharma, a resident Indian aged 77 years, gets pension of 52,000 per month from the UP- State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest @8% p.a. on fixed deposit of 20 lakh with the said bank. Out of the deposit of Rs. 20 lakh, Rs 2 lakh represents five-year term deposit made by him on 1.4.2023. Interest on savings bank credited to his SBI savings account for the P.Y.2023-24 is 9,500.



## 14. Tax Deduction At Source and Introduction to Tax Collection At Source

(1) From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y. 2024-25 assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(2) What would be the amount of tax deductible at source by SBI, assuming that the same is as specified bank? Is Mr. Sharma required to file his return of income for A.Y. 2024-25, if tax deductible at source has been fully deducted? Examine.

(3) Is Mr. Sharma required to file his return of income for A.Y. 2024-25, if the fixed deposit of Rs 20 lakh was with Canara Bank instead of SBI, other facts remaining the same? (Module Question 7-61 illustration 12)

51) An amount of 40,000 was paid to Mr. X on 1-7-2023 towards fees for professional services without deduction of tax at source. Subsequently, another payment of 50,000 was due to Mr. X on 28-2-2024, from which tax@10% (amounting to 9,000) on the entire amount of 90,000 was deducted. However, this tax of 9,000 was deposited only on 22-6-2024. Compute the interest chargeable under section 201(1A). (Module Question)

# 14 Tax Deduction At Source and Introduction to Tax Collection At Source

## Concept 2: TDS Table-All about TDS (Section 192 to 194)

For which Payments TDS should be deducted? @ What rate?

TDS Rate Chart for FY 2022-23, AY 2023-24

**P** Deduct TDS at the time of payment **Section No.** = Section Number of that particular deduction

(Various Questions have been asked from this table)

Nature of payment	Rate	Payment in excess of	Remarks
Salary <b>P</b>	Avg	Note 1	TDS is to be deducted at the prescribed rates applicable to Individual/Women & Senior Citizen. TDS is required to be deducted where the salary payment exceeds the basic non taxable limit.
<b>192</b>	Rate		
	of Itax		
Premature withdrawal	10%	Rs 50,000	Not applicable if amount withdrawn is after 5 years of contribution
From employee provident			(in case of recognized PF)
Fund <b>P</b>	<b>192A</b>		
Interest on Securities	10%	Rs. 5000 in case of	1) No need to deduct TDS on Securities of State & Central Government. 2) However on 8% Savings Bonds 2003 & on 7.75% Savings Bonds 2018. TDS shall be deducted if the interest exceeds 10,000 (wef AY 19-20)
<b>193</b>		Listed/Unlisted	
		Debentures for	
		I/HUF. No threshold	
		Limit for other Securities.	
Dividend including <b>P</b>	10%	Rs 5000 for Ind.	
Dividend on preference		Shareholder for any	
Shares	<b>194</b>	Mode other than	
		Cash. No threshold	
		Limit in other cases	

# 14 Tax Deduction At Source and Introduction to Tax Collection At Source

Nature of payment	Rate	Payment in excess of	Remarks
Interest other than	10%		1. Interest by a firm to a partner of the firm.
Interest on securities	194 A		2. Interest on the compensation amount awarded by Motor Accidents Claims Tribunal where aggregate of such interest income in a FY does not exceed
Bank to assessee		40,000	50,000.
Bank to Sr. Citizen		50,000	3. Interest on savings bank account
			4. Interest on Zero Coupon Bonds issued by infrastructure Capital
Assessee to any person		5,000	Company Capital Fund/Public Sector Company/Scheduled Bank
			5. If the payee is a Senior citizen (60 years more) then no
			TDS upto Rs.50000(wef AY19-20)
			6) Ind/HUF whose turnover or gross receipts in preceeding FY does not exceed the amount specified (1Cr/50 lakhs) shall not be liable to deduct TDS under this section.
			7) TDS made applicable on interest on recurring deposits
			8) While considering the threshold limit the aggregate interest credited Or paid by all branches of bank which has adopted CBS(core Banking Solutions)
			9) Assessee has taken loan from Bank and pays Interest to the bank, no need to deduct TDS.
Winning from lottery	30%	10,000	In case winnings are in kind or partly in cash partly in kind the deductor must ensure that the tax has been paid before releasing the winnings.
Crossword, Puzzle, card Game, Other games	194 B		
Of any sort			
Winning from Horse Races	30%	10,000	194 B

## 14 Tax Deduction At Source and Introduction to Tax Collection At Source

Nature of payment	Rate	Payment in excess of	Remarks
Payment to contractor		Rs. 30,000 per contract or Rs. 1,00,000 p.a.	1. Payer is an Individual, HUF, where total sales, gross turnover of From Business/profession does not exceeds 1 Crore/ 50 Lakhs during the preceeding FY then not required to deduct TDS. 2. Any sum paid or credited to the account of contractor by Individual/HUF & such sum is incurred exclusively for personal Purposes of such Ind/member of HUF
<b>194 C</b>			
Payee	Rate		
Ind/HUF	1%		3. If payment made to transport contractor(u/s44AE) who furnishes Declaration & PAN , no TDS should be deducted.
Other	2%		
Transporter	0%		4. However, if no PAN is furnished, rate will be 20% (for all including transporter)
			5. Contracts for rendering professional services will get covered u/s 194J.
<p>Works Contract includes a contract/ sub contract for advertising, broadcasting, telecasting , production, of programmes. It also includes carriage of Goods or Passengers( other than railways). Includes catering contracts. Now FA 2020 has amended the definition of work to provide the following If any product is manufactured or supplied according to the requirements of the customer it shall be treated as works contract if the material is Supplied by customers, its associate defined u/s 40A(2)( b)</p> <p>However, work will not include manufacturing or supplying If the material purchased from a person other than such customer or associate of such customer.</p>			
Insurance Commission	5%	Rs. 15,000	N.A.
194D	<b>194 D</b>		
Life Insurance payment	5%	1,00,000 or more	Conditions: Amount should not be exempt/s 10(10D) 5% TDS is to be deducted on income component wef 1/09/2019 of Insurance payout.
194DA	<b>194 DA</b>		

# 14 Tax Deduction At Source and Introduction to Tax Collection At Source

Nature of payment	Rate	Payment in excess of	Remarks
Payment to NR	20.8%	-	<i>If TDS for non- resident is deducted, then 4% education cess will be added</i>
sportsmen Or entertainer or sports Association	<b>194 E</b>		<i>on TDS rate.-</i>
Payment under National Saving Scheme	10%	Rs. 2500	<i>Exempt if the payment is made to the legal heir.</i>
Commission on sale of Lottery tickets	5%	Rs. 15,000	
Commission, Brokerage	5%	Rs. 15,000	<ol style="list-style-type: none"> <li><i>In case of any payment payable by BSNL or MTNL towards commission or brokerage to PCO.</i></li> <li><i>Ind/HUF whose turnover or gross receipts in preceeding FY does not exceed the amount specified (1Cr/50 lakhs) shall not be liable to deduct TDS under this section.</i></li> </ol>
Rent-land and Building	10%	Rs. 2,40,000 p.a.	<ol style="list-style-type: none"> <li><i>No requirement to deduct Tax at source on income by way of "Rent" if the recipient is Government.</i></li> <li><i>The local authorities &amp; statutory authorities whose income is exempt u/s 10(20)</i></li> </ol>
Rent-plant and Machinery	2%		<ol style="list-style-type: none"> <li><i>Cooling charges paid by the customers to the owners of cold storage plants cannot be treated as rent. Hence TDS not be deducted u/s194I but should be deducted u/s 194C (Contractor Payments)</i></li> <li><i>In case of multiple owners, TDS is required only if share of rent of each co-owner exceeds Rs.240000 in a year</i></li> <li><i>Ind/HUF whose turnover or gross receipts in preceeding FY does not exceed the amount specified (1Cr/50 lakhs) shall not be liable to deduct TDS under this section.</i></li> </ol>

# 14 Tax Deduction At Source and Introduction to Tax Collection At Source

Nature of payment	Rate	Payment in excess of	Remarks
Purchase of land or Building	1%	Amount exceeds Rs. 50,00,000	1. The deductor shall remit the TDS to CG in form 26QB & issue form 16B as certificate to payee.
194IA	<b>194 IA</b>		2. No TDS in case of agricultural land in rural areas.
		<b>Deduct TDS @ 1% on sale consideration Or the SDV WEF FY 2022</b>	3. The deductor not be required to obtain TAN
			4. Not applicable for compulsory acquisition of immovable Property as covered u/s 194LA
			5. TDS to be paid to Government within 30 days from end of month of deduction
			6. No TDS where consideration and the SDV both are less than 50 lakhs
<p>Note: Consideration for immovable property shall include includes all charges like club membership fees, car parking fees electricity or water facility fee, maintenance fee advance fee or any similar charges which are incidental to transfer of immovable property. (WEF 1<sup>st</sup> September 2019)</p>			
Rent Payment of rent by certain Individual/HUF	5%	Exceeds Rs. 50,000 p.m	Note: 1) Failure to furnish PAN, TDS at higher rate cannot exceed rent of last month
	<b>194 IB</b>		2) This is applicable to Ind or HUF whose TO or Gross receipts in preceding FY does not exceed 1 Cr or 50 lakhs
			3) Tax is to be deducted on credit of rent of last month of PY or last month of tenancy.
			4) TDS should be paid to the Govt. within 30 days from end of the month of deduction
			5) Deductor not required to obtain TAN.
			6) Where the tax is required to be deducted as per rates in force or 20% such deduction shall not exceed amount rent payable for the last month of previous year or last month of tenancy as the case may be .
	<b>194 IC</b>		
Payment under specified Agreement u/s 45(SA)	10%	No threshold Limit	1) TDS needs to be deducted in case of joint development u/s 45(SA)
			2) TDS not required to be deducted if consideration is in kind

## 14 Tax Deduction At Source and Introduction to Tax Collection At Source

Nature of payment	Rate	Payment in excess of	Remarks
Section 194J			1. In case where the Individual/HUF making payment or crediting in their
Fees for technical services (excl. professional services)	2%	30,000	books of account any fee for professional services is exclusively for personal purposes of such individual/HUF, tax need not be deducted
Fees for professional Services	10%	30,000	2. Ind/HUF whose turnover or gross receipts in preceeding FY does not exceed the amount specified (1Cr/50 lakhs) shall not be liable to deduct
Royalty (consideration of sale, distribution or Exhibition of Cinematographic films)	2%	30,000	TDS under this section. 3. Exemption limit for professional fees/technical fees/royalty is 30,000 each And not combined.
Other Royalty	10%	30,000	4. Rate reduced to 2% in case payee is engaged only in business of operation of call centre.
			5. TDS Rate shall be 2% instead of 10% in case of fees for technical Services and Royalty in nature of consideration for sale or distribution of films
Professional fees any Remuneration, commission Other than salary Paid to director	10%	No threshold limit	1. Salary paid to director will get covered u/s 192 2. Payments other than salary will get covered u/s 194J. Eg: sitting fees, non compete fees
Income on units Other than in nature Of capital gains	10%	5,000	Any person responsible for paying any income in respect of units of mutual Fund/administrator or of the specified undertaking /specified company

194 J(1)  
(ba)

194 J

194 K





# 14 Tax Deduction At Source and Introduction to Tax Collection At Source

Nature of payment	Rate	Payment in excess of	Remarks
194O	1%	No threshold limit	1) Every ECO shall deduct TDS on amounts paid to the e-commerce Participant. 2) Rate of TDS shall be 5% if PAN or Aadhar is not furnished by the Participant
Wef 1-10-2020			3) No TDS shall be deducted in case the participant is Individual/HUF and the Amount paid/payable does not exceed 5 lakhs during the year. Also Ind/HUF
Payments made by ECO			Should furnish his PAN or Aadhar in such case.
Finance Act, 2020	<b>194 O</b>		4) TDS shall be deducted on gross amount of such sales or services or both.
Wef AY 21-22			5) Any payment made by purchaser of Good or Services directly to e-commerce participant shall be included in the gross amount of sales for The purpose of TDS
194P	Rates	On such income**	1) Specified bank means banking company notified by CG.
Specified bank should	in	Compute tax on	2) specified Senior citizen means (a) a resident individual of age 75 yrs or more and
Deduct TDS of specified	Force	Rates in force.	b) having only pension & interest income.
Senior citizen.			Such interest income must be from any account maintained by such individual in the
		<b>194 P</b>	Same specified bank in which he receives pension and
Wef AY 2-23 FA 2021			3) He has given a declaration in prescribed form to the bank.
Wef 1-4-2021			** Banks should consider income after deductions under Chapter VI A & rebate 87A.
			Provisions of sections 139(1) shall not apply to such specified senior citizens whose
			Tax has been deducted u/s 194P.
194Q	0.01%	on sum exceeding	1) buyer pays any sum to any resident for purchase of any goods exceeding 50 lakhs
A buyer whose total		50 lakhs	in any PY.
Turnover exceeds 10 crore			2) deduct TDS @ 0.1% on sum exceeding 50 lakhs at credit/ payment ↓
In the last FY.	<b>194 Q</b>		3) No TDS u/s 194Q is TDS is applicable under any other provisions of this Act.
4) If PAN is not provided rate of TDS shall be 0.1%/5% whichever is higher i.e., 5% (6) 6) If deductee has filed ITR for past 2 years & total of TDS & TCS in each of the 2 years is equal to 50000 or more then TDS is deducted @ 5% (Refer Guidelines on page no. 289)			



# 14 Tax Deduction At Source and Introduction to Tax Collection At Source

## Notes:

1. CBDT has clarified that payments made by TPAs to hospitals are covered u/s 194J. TPA i.e. Third Party Administrators make payment on behalf of insurance companies to hospitals for settlement of medical/insurance claims like cashless schemes, etc.

2. TDS is to be deducted on the amount without GST component.

3. TDS is required to be deducted u/s 194J on acquisition of software.

4. Co-operative banks now required to deduct TDS on interest on time deposits (1/06/2015).

5. No TDS is required to be deducted on interest paid by co-operative Bank to another Co-Operative Society.

6 No surcharge and education cess are to be added while deducting TDS in case of resident.

7. If TDS for non-resident is deducted, then 4% education cess will be added on TDS rate.

8. For Interest on Securities and on interest other than securities following are the threshold limit

A) Interest on Securities	Threshold limit
1) Interest on debentures paid to I/HUF	5000
2) Interest on Central Government/State Government Securities	No TDS deductible
3) Interest on 7.75% savings bonds	10,000
4) Interest on 8% Saving Bonds	10,000
5) Interest on other Securities	No threshold limit
Interest other than on securities	
1) Bank/post office paying any assessee	40,000
2) Bank /post office paying interest to senior citizen	50,000
3) Assessee (other than bank ) paying interest	5,000

9. Section 206AA : If deductee does not provide PAN then tax should be deducted at higher rate.

Section 206AB : Rate of TDS for non filers of Income Tax return is also higher

If a person has not furnished the ITR for the last FY and TDS plus TCS is 50,000 or more for the last FY then such person shall be non filer.

TDS		
1	206 AA PAN (not provided)	20% or normal rate (whichever higher) For 1940 and 194Q - 5% or rate (whichever higher)
2	206 AB Non filers	Twice the rate or 5% (whichever higher) NA - 192/192A/194B/194BB/194N

Note : If both - No PAN and non filer then rate as point 1 or point 2 (whichever higher)

# 14 Tax Deduction At Source and Introduction to Tax Collection At Source

## Concept 3: TDS on Salary:

a) **Deductor** : Employer

**Deductee** : Employee

**Applicable** : Employer should deduct TDS where salary payment exceeds BEL.

b) **Rate** : TDS is deducted at tax rates in force (if employee intends to opt for provisions of section 115BAC he must intimate to the employer)

c) **When** : TDS is deducted at the time of payment

d) **If no PAN of employee** : deduct tax at MMR

Particulars	Amount
Salary from employer	XX
Other income (declaration given by employee)	XX
Loss only from HP	(XX)
GTI	XX
Less: Deductions under Chapter VI A	
80C, 80CCC, 80CCD, 80D, 80DD, 80DDB, 80E, 80G, 80U	(XX)
NTI	XX
Tax	XX
Surcharge/Rebate (whatever is applicable)	XX
Tax + Surcharge	XX
Add: Cess	XX
<b>Tax Liability</b>	<b>XX</b>

### Note:

1) Similarly, in case where the employee leaves job with one employer and joins with another employer, he may furnish the details of his previous employment in Form 12B to his subsequent employer. The subsequent employer shall be bound to take this information for the purpose of tax deduction u/s192. In case, the employee chooses not to furnish the details of income of other employment, the employer shall deduct tax only in respect of salary paid by him-Sec. 192(2).

2) Employee may **apply in form no 13** to The Assessing Officer for lower or no deduction of Tax.

3) An employer being an eligible start up responsible for paying any income to the assessee by way of perquisite being any specified security or sweat equity shares allotted or transferred free of cost or at concessional rates to the assessee, has to deduct or pay as the case may be tax on value of such perquisite provided to its employee within 14 days from the earliest of the following dates-

a) after expiry of 48 months from the end of the AY

b) from the date of such sale of such specified security or sweat equity share by the assessee

# 14 Tax Deduction At Source and Introduction to Tax Collection At Source

c) from the date of the assessee ceasing to be employee of the employer who allotted such shares. Such tax has to be deducted or paid on the basis of rates in force for the financial year in which said specified security or sweat equity share is allotted or transferred.

## Concept 4: When should the deductor deduct TDS?

Normally TDS is to be deducted on payment or credit whichever is earlier. However in case of the following TDS is to be deducted on Payment basis

- 1) Salary – Section 192
- 2) Dividend (TDS rate is 10 %)
- 3) Winnings from Lottery, crossword puzzles, card games etc
- 4) Winnings from horse races.
- 5) Sum received from life insurance policy
- 6) Compensation in case of compulsory acquisition of immovable property.
- 7) Payment under National Savings Scheme
- 8) Cash withdrawal from banks

## Concept 5: After Deducting TDS when to pay it to the Government? When to file the TDS returns?

### When to issue TDS certificates to the deductee?

Month	Payment Statements	Return/Other	Issue of Certificate
April	7/05/2022	31/07/2022	15/08/2022
May	7/06/2022		
June	7/07/2022		
July	7/08/2022	31/10/2022	15/11/2022
August	7/09/2022		
September	7/10/2022		
October	7/11/2022	31/01/2023	15/02/2023
November	7/12/2022		
December	7/01/2023		
January	7/02/2023	31/05/2023	15/06/2023
February	7/03/2023		
March	30/04/2023		

### Note:

1. E-payment is compulsory for companies and those covered under tax audit.
2. It is compulsory to generate Form 16A (others) & Form 16 (Salary) from TRACES website.
3. For transfer of immovable property (other than agricultural land) Form 26QB challan cum TDS statement is applicable (16B-TDS Certificate.)

# 14 Tax Deduction At Source and Introduction to Tax Collection At Source

4. Tax deducted under sections 194-1A, 194-1B, 194M have to be remitted within 30 days from the end of the month of the deduction. A challan-cum-statement in form 26QB/26QC has to be furnished within 30 days from the end of the month of deduction. Also such persons are not required to obtain TAN.

5. Every person required to deduct TDS should submit quarterly statements.

Form	TDS Certificate
16	Salary
16A	Other than Salary
16B	1941A
16C	1941B

## Concept 6: Consequences in case of default

Every person who fails to deduct tax or fails to pay the tax deducted shall be treated as assessee in Default.

Event	Consequences Interest
1) Fails to deduct TDS	Interest @ 1% p.m. from date of it was to be deducted till actually Deducted
2) Fails to deposit	Interest @ 1.5% p.m. from date of deducted till date deposited
3) TDS return not filed Late Fee u/s 234E	Fees @ Rs 200 per day subject to maximum amount of TDS Also penalty applicable if TDS Return not furnished even after one year from due date.
4) Provide incorrect detail in TDS return	Penalty Minimum 10,000 Maximum 1,00,000

## Concept 7: Lower/ no deduction of tax at source: - [Sec. 197]

a) If Tax is deductible under following sections, then assessee can apply for TDS at lower rate or no deduction.

192-salary,

193-interest on securities,

194-dividends

194A- interest other than interest on securities

194C- contractor payments

194D-insurance commission

194G-commission on sale of lottery tickets

194 H- commission or brokerage

194-I-Rent

194J- Professional fees

# 14 Tax Deduction At Source and Introduction to Tax Collection At Source

194K- Income on units other than nature of capital gains

194LA- compensation on acquisition of certain immovable property

194M- Payment to contractor, commission or brokerage, fees for professional services.

194O- Payments made by ECO.

195- Other sums paid to non residents

b) i.e. if TDS is deductible under any other sections it is not possible to apply for lower rate of TDS.

E.g. TDS deductible on winnings from lottery, crossword puzzles and winnings from horse races.

c) Assessee can apply in form no 13 to the assessing officer. The assessing officer may issue a certificate authorizing deduction of tax at lower rate or no deduction as the case may be.

d) Such certificate should be furnished to person responsible for deducting TDS.

e) The assessing officer will determine the lower rate taking into consideration tax paid in the preceding three years.

## Concept 8: Tax deduction and collection account number – Sec.203A

Every person deducting tax or collecting tax in accordance with the relevant provisions shall apply to the assessing officer for the allotment of “Tax deduction and collection account number”.

Where a “Tax deduction and collection account number” has been allotted to a person. Such person shall quote such number-

a) In all challans for the payment of any sum;

b) In all certificates;

c) In all statements prepared and delivered;

d) In all the returns delivered; and

e) In all other documents, as may be prescribed.

## Guidelines for 194Q

N	Particulars	Remarks
1	194 Q not applicable	1) Transactions in securities and commodities which are traded through recognized stock exchanges.  2) Transactions in electricity, renewable energy certificates and energy saving certificates traded through registered power exchanges.

# 14 Tax Deduction At Source and Introduction to Tax Collection At Source

2	Calculation of threshold for the F.Y. 2021-22	<p>1) Section 194Q has come into effect from 1<sup>st</sup> July, 2021.</p> <p>2) It is clarified that the threshold of Rs. 50 Lacs shall be computed from 1<sup>st</sup> April, 2021.</p> <p>3) If credit or payment or both happens before 01/07/2021 then section 194Q will not apply.</p> <p>4) The provision of section 194Q will not apply to a buyer being NR who does not have permanent establishment in India. Permanent establishment means fixed place of business in India.</p> <p>5) Buyer's turnover or receipts from non business activity is not to be counted for this purpose.</p>
3	Adjustment for GST, Purchase returns	<p>1) Generally TDS is not to be deducted on GST Component.</p> <p>2) Tax is to be deducted on payment or credit whichever is earlier.</p> <p>3) If credit is earlier – Deduct tax on payment excluding GST.</p> <p>4) If payment is earlier – Deduct tax on total payment as it may not be possible to identify GST component.</p>
4	Whether Non Resident can be buyer under section 194Q	<p>1) The provisions of section 194Q would not apply to a buyer being a non-resident.</p>
5	Whether Tax is to be deducted on advance payment	<p>1) TDS needs to be deducted on advance payment also.</p>
6	Whether provisions of section 194Q shall apply to buyer in the year of incorporation.	<p>1) The provisions of section 194Q shall not apply in the year of incorporation.</p>
7	Whether TDS is applicable when seller's income is exempt	<p>NO TDS, If seller's income is exempt.</p> <p>e.g. Like section 10 however TDS is applicable only if part of the income is exempt.</p>
8a	Will Section 194Q apply to Government of Department carrying on business.	<p>Yes</p>



# 14 Tax Deduction At Source and Introduction to Tax Collection

## At Source

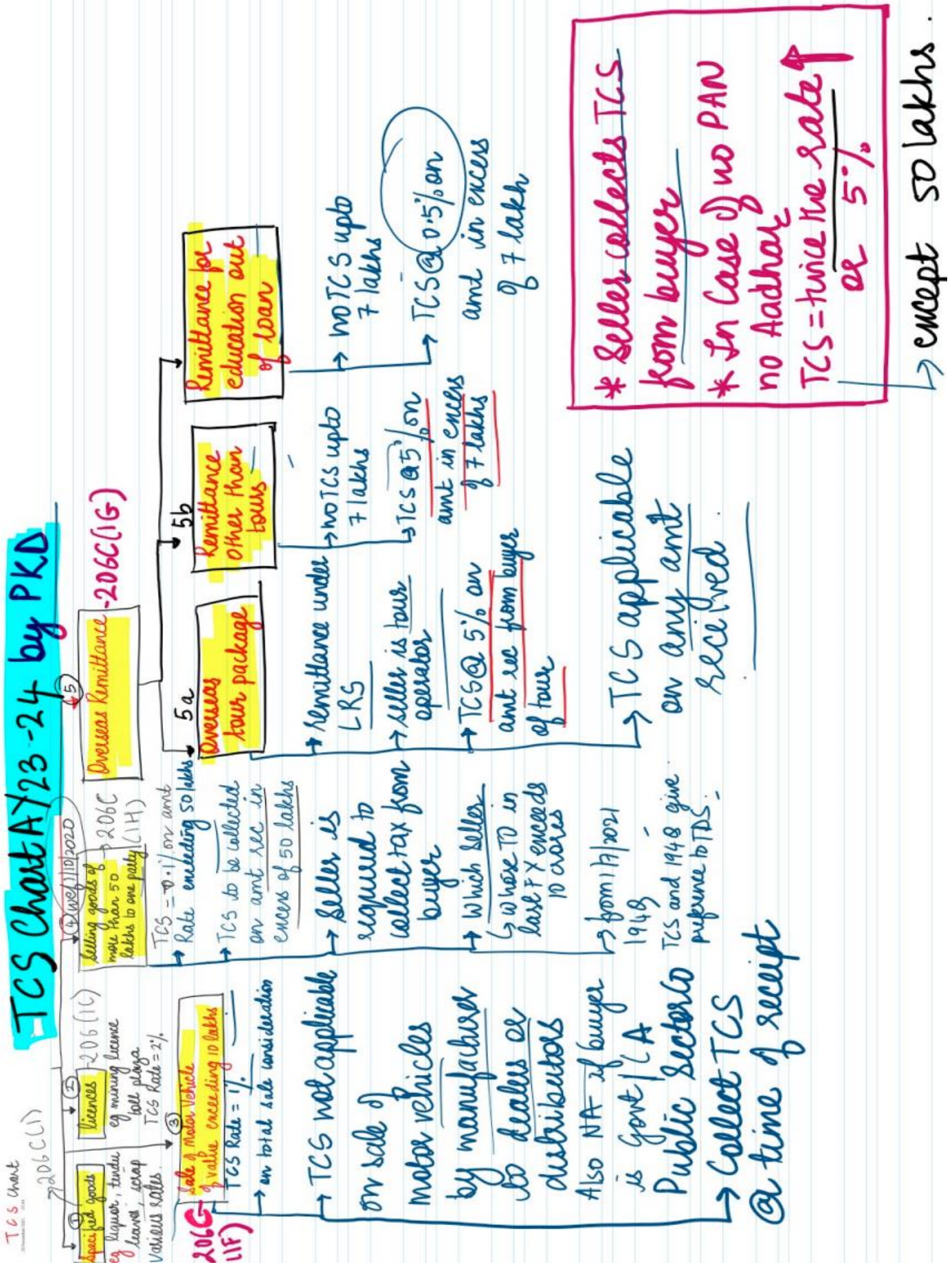
8b	Will Section 194Q apply to Government of Department not carrying on business.	No, since it will not be considered as buyer.
9 Cross application of Section 194-0, Section 206 C(1H) and 194Q		
9a	If a transaction is covered within purview of section 194-0 as well as 194-Q	Then TDS should be deducted under section 194-0
9b	If a transaction is covered under section 194-0 and 206C(1H)	Then TDS should be deducted under section 194-0
9c	If a transaction is covered under section 194-Q and 206C(1H)	Then TDS should be deducted under section 194- Q

### Concept 9: Tax Collection at source

#### 9.1) Basic Concepts

1. Tax should be collected at source by the seller from the buyer of specified goods
2. It is collected at the time of debit to the account of the party or at the time of receipt of Money whichever is earlier.
3. TCS is collected at the rates prescribed below
4. NO TCS shall be collected from the buyer who purchases the goods for manufacturing, processing or producing any article etc.
5. An application can be made by the buyer to the Assessing officer for collecting TCS at lower rates in form 13.
6. TCS should be deposited within 1 week from the last day of the month in which it is collected
7. The seller should furnish TCS Certificate to the buyer.
8. For late payment, simple interest shall be levied @ 1% per month or part thereof
9. Person collecting TCs should furnish quarterly statements to the Income tax

# TCS Chart AY 23-24 by PKD



# 14 Tax Deduction At Source and Introduction to Tax Collection At Source

Notes for above chart :

## 1. Rate of TCS and the Specified goods and licenses.

Nature of Goods	%
<b>A) Goods</b>	
Alcoholic liquor for human consumption	1
Tendu Leaves	5
Timber obtained under forest lease	2.5
Any other forest product not being timber or tendu leaves	2.5
Scrap	1%
Mineral coal, iron ore	1%
<b>B) Licenses.</b>	
Toll Plaza & Parking	2%
Mining and quarrying	2%

## 2a. TCS on Overseas remittance (wef AY 21-22)

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

1) 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;

2) being a seller of an **overseas tour programme package** who receives any amount from the buyer who purchases the package to collect tax 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.

## 2b. Cases where no tax is to be collected

(i)	No TCS by the authorized dealer on an amount in respect of which the sum has been collected by the seller
(ii)	No TCS, if the buyer is liable to deduct tax at source under any other provision of the Act and has deducted such tax
(iii)	No TCS, if the buyer is the Central Government, a State Government, an embassy, a High Commission, a legation, a commission, a consulate, the trade representation of a foreign State, a local authority <sup>9</sup> or any other person notified by the Central Government, subject to fulfillment of conditions stipulated thereunder Accordingly the CBDT has, vide notification no. 20/200 dated 30.03.2022, notified that the provisions of section 206C(1G) would not apply to an individual who is not resident in

# 14 Tax Deduction At Source and Introduction to Tax Collection At Source

India as per section 6(1) and 6(1A) and who is visiting India.

### 3. After Collecting TCS when to pay it to the Government? When to file the TCS

returns? When to issue TCS certificates?

Month	Payment	Return	Issue of Certificate
April	7/05/2022	15/07/2022	30/07/2022
May	7/06/2022		
June	7/07/2022		
July	7/08/2022	15/10/2022	30/10/2022
Aug	7/09/2022		
Sep	7/10/2022		
Oct	7/11/2022	15/01/2023	30/01/2023
Nov	7/12/2022		
Dec	7/01/2022		
Jan	7/02/2023	15/05/2023	30/05/2023
Feb	7/03/2023		
March	30/04/2023		

**Note:** W e f AY 18-19 Section 206CC: Provision to collect TCS at a higher rate in case of failure to furnish PAN: Higher rate means: Twice of rate or 5% ↑

### 4. Section 206CC : TCS rates if no PAN is provided.

Section 206CCA : TCS rates for non filers.

TCS		
1	206CC PAN (not provided)	Twice the rate or 5% (whichever higher) For 206C(1H) twice the rate or 1% (whichever higher)
2	206CCA Non filers (AY 22-23)	Twice the rate or 5% (whichever higher)

**Note :** If both – No PAN and non filer then rate as point 1 or point 2 whichever higher

# 14 Tax Deduction At Source and Introduction to Tax Collection At Source

## Concept 10: Difference between TCS and TDS

	TDS	TCS
1)	TDS is tax deduction at source	TCS is tax collection at source.
2)	Person responsible for paying is required to deduct tax at source at the prescribed rate.	Seller of certain goods is responsible for collecting tax at source at the prescribed rate from the buyer. Person who grants or licence lease (in respect of any parking lot, toll plaza, mine or quarry) is responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be.
3)	Generally, tax is required to be deducted at the time of credit to the account of the payee or at the time of payment, whichever is earlier. However, in case of payment of salary and payment in respect of life insurance policy, tax is required to be deducted at the time of payment.	Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier

# 14 Tax Deduction At Source and Introduction to Tax Collection At Source

## *Budget Quotes-1<sup>st</sup> February 2022*

*It has been noticed that as a business promotion strategy, there is a tendency on businesses to pass on benefits to their agents. Such benefits are taxable in the hands of agents. In order to track such transactions, I propose to provide for tax deduction by the person giving benefits, if the aggregate value of such benefits exceeds ₹20,000 during the financial year.*

*-Nirmala Sitharaman*

# 14 Tax Deduction At Source and Introduction to Tax Collection At Source

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*Contents of chapter*  *(Section 10)*



Section	Particulars of Exempt Income
10(1)	Agriculture income is exempt under section 10(1) Learnt in detail in chapter of Agricultural Income.
10(2)	Since the HUF is taxed in respect of its income, the share income is exempt from tax in the hands of the member.
10(2A)	The partner's share in the total income of the firm or LLP is exempt from tax.
10(4)(ii)	Income by way of interest on moneys standing to his credit in a Non-resident (External) Account (NRE A/c), is exempt in the hands of an individual, being a person resident outside India as per the FEMA, 1999 to maintain such account.
10(10A)	Payment in commutation of pension received from a set up by LIC [Section 10(10A)] Any commuted pension received by an individual from a fund set up by LIC of India, approved by Controller of Insurance or IRDA of India will be exempted.
10(6)(ii)	Remuneration received by Foreign Diplomats/ Consulate and their staff Conditions. a. The remuneration received by our corresponding Government official's resident in such foreign countries should be exempt. b. The above-mentioned officers should be the subjects of the respective countries and should not be engaged in any other business or profession or employment in India. Individual (not being a citizen of India)
10(6)(vi)	Remuneration as employee of a foreign enterprises for services rendered by him during his stay in India, if: a. Foreign enterprises is not engaged in any trade or business in India; b. His stay in India does not exceed the aggregate a period of 90 days in such PY; and Individual - Salaried Employee (not being a citizen of India) c. Such remuneration is not liable to deducted from the income of employer chargeable under this Act. Individual - Salaried Employee (not being a citizen of India)

10(6)(viii) )	Salary received by or due for services rendered in connection with his employment on a foreign ship if his total stay in India does not exceed 90 days in the PY.  Individual (Non-resident who is not a citizen of India) - Salaried Employee
10(6D)	Income arising by way of royalty from or fees from technical services rendered in or outside India to, the National Technical, Research Organisation (NTR0) NR & Foreign Company
10(10BB)	Payments to Bhopal Gas Victims  Any Person
10(10BC)	Compensation received by an individual or his legal heir on account of any disaster is exempt, if the same has been granted by the Central Government, State Government or a local authority.
10(11A)	Any payment received from Sukanya Samriddhi Account
10(12A)	Sec 10(12) provides that any payment from NPS trust tpo an assesse on account of closure or his opting out of pension scheme reffered to in section 80CCD to the extent it does not exceed 60% of the total amount payable to Him at the time of closure or his opting out of the scheme shall be exempt from tax
10(12B)	To provide relief to an employee subscriber of NPS, new clause (12B) has been inserted in section 10 to provide that any payment from National Pension system trust to an employee under the pension scheme referred to in section 80CCD, on partial withdrawn made out of his account in accordance with the term and conditions specified under the Pension Fund Regulatory and Development Authority Act, 2013 and the regulations made there under, shall be exempt from tax to the extent it does not exceed 25% of amount of contributions made by him
10(12C)	
10 (15)	Interest on certain securities exempt. Refer the Chapter of IOS
10(16)	The value of scholarship granted to meet the cost of education would be exempt from tax in the hands of the recipient irrespective of the amount or source of scholarship. (Educational Scolership)
10(17)	paymemt received by any Member of Parliament or of State Legislatures or any Committee thereof are exempt like a)Daily allownces b) Constituency allowances of MP's and MLA's.

10(17A)	<i>Payment whether in cash or in kind in pursuance of an award instituted in public interest by the govt or reward by the govt. for approved purpose is exempt.</i>
10(18)	<i>Pension received by individual who has been awarded "ParamVir Chakra " or "MahaVir Chakra " or "Vir Chakra" such other gallantry award as the Central Government notifies is exempt from tax.</i>
10(35) AY 21-22	<i>This section is now deleted.</i>

**Section 14A**

*Expenditure incurred in relation to any exempt income is not allowed as a deduction while computing income under any of the 5 heads of income.*

**Disallowance of expenditure in relation to exempt income [Section 14A]**

- ✓ *As per section 14A, notwithstanding anything to the contrary, 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.*
- ✓ *The Assessing Officer is empowered to determine the amount of expenditure incurred in relation to such income which does not form part of total income in accordance with such method as may be prescribed.*
- ✓ *The method for determining expenditure in relation to exempt income for the purpose of disallowance of such expenditure under section 14A is prescribed by the CBDT.*
- ✓ *The provisions of section 14A regarding disallowance of expenses would apply even in a case where exempt income has not accrued or arisen or has not been received during the previous year relevant to an assessment year and the expenditure has been incurred during the said previous year in relation to such exempt income.*

## Questions for Practice

1) Y Ltd. Furnishes you the following information for the year ended 31-3-2024

Particulars	Rs. (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of unit A	30
Export turnover of unit A received in India in convertible foreign exchange on or before 30-9-2024	50
Total turnover of unit B located in Domestic Tarrif Area (DTA)	200
Profit of the business of Unit B	20

Compute deduction under section 10AA for the A. Y. 2024-2025, assuming that Y Commenced operations in SEZ and DTA in the year 2019-20 and Mr. Y has exercised the option of shifting out of default tax regime provided under section 115BAC(1A) (module question 6-84 illustration 21)

2) Mr. Rudra Ltd. has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the previous year 2023-24 (module question 6-102 6)

Particulars	Rudra Ltd (Rs)	Unit in DTA (Rs)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	5,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Proceeds from export sales in SEZ received in convertible foreign exchange by 30-9-2024 is Rs. 3,00,000. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2024-25, in the following situations: (i) If both the units were set up and start manufacturing from 22-05-2015. (ii) If both the units were set up and start manufacturing from 14-05-2019.

3. Mr. A, a member of HUF, received Rs. 10,000 as his share from the income of the HUF. Is such income includible in his chargeable income? Examine with reference to the provisions of the Income-tax Act, 1961.

4. Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961.

5. Examine whether the following are chargeable to tax, and if so, compute the amount liable to tax:

i) Arvind received Rs. 20,000 as his share from the income of the HUF.

ii) Mr. Xavier, a 'Param Vir Chakra' awardee, who was formerly in the service of the Central Government, received a pension of Rs. 2,20,000 during the financial year 2022-23

iii) Agricultural income to a resident of India from a land situated in Malaysia.

iv) Rent of Rs. 72,000 received for letting out agricultural land for a movie shooting.

6. Whether the income derived from saplings or seedlings grown in a nursery is taxable under the income-tax Act, 1961? Examine.

7. Examine with reasons in brief whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961:

i) Pension received by a recipient of gallantry award is exempt from income-tax.

ii) Mr. A, a member of a HUF, received Rs. 10,000 as his share from the income of the HUF. The same is to be included in his chargeable income. (module question)

Section	Particulars
<b>115BAA</b>	<i>(Optional concessional tax rate for domestic company)</i>
<b>115 BAB</b>	<i>(Optional concessional tax rate for domestic company)</i>
<b>115 BAC</b>	Applicable to Individual and HUF <i>(default tax regime)</i> Forgo certain benefits, Concessional tax rates, No need to pay AMT.
<b>115 BAD</b> <b>115BAE</b> <i>(Final)</i>	<i>(Optional concessional tax rate for co-operative societies)</i>
<b>115 BB</b>	<i>Casual Income like Winning from lotteries, card games, puzzles, gambling, betting, etc.</i> Tax Rate = 30% + surcharge (if applicable) + cess @ 4% Benefit of unexhausted BEL not available, VI A ded X, No losses can be set off.
<b>115BBJ</b>	<i>Net winnings</i> from any online game would be taxed @ 30% + surcharge (if applicable) + 4% HEC. No expenses allowed, no chapter VI A deduction, no BEL, no unexhausted BEL.
<b>115JC</b> <b>AMT</b>	For non corporate assessee if there is benefit u/s 10AA, 35AD, 80RRB, 80QQB, 80JJAA. Tax @ 18.5% on ATI + Surcharge as applicable + cess @ 4%. 18.5% rates is for all income including income from capital gains & casual income. Tax @ 15% (instead of 18.5%) for co-operative society.
<b>115BBE</b>	<i>Undisclosed income</i> like unexplained money, unexplained investment, unexplained Expenditure u/s 68, 69, 69A, 69B, 69C, 69D. Tax @ 60% + surcharge @ 25% + cess @ 4%. <b>Effective rate = 78%</b> , no BEL, no expenses allowed, no set off of any losses.
<b>STCG</b> <b>111A</b>	STCG, equity shares, equity oriented mutual funds, <b>(STT paid) Tax @ 15%</b> . No Chapter VI A deductions available. Unexhausted BEL available only to Resident I/HUF. Enhanced rates of surcharge not applicable.
<b>LTCG</b> <b>112A</b>	<b>LTCG, equity shares, equity oriented mutual funds, (STT paid)</b> <b>Tax @ 10% on gain exceeding 1,00,000.</b> No chapter VI A deductions available. Unexhausted BEL available only to resident I/HUF Indexation not available. 87A not available. Enhanced rates of surcharge not applicable.

<i>LTCG</i> <i>112</i>	<i>Other LTCG</i> <i>Tax @20%</i> <i>No chapter VI A deductions available.</i> <i>Unexhausted BEL available to resident I/HUF.</i> <i>Enhanced rates of surcharge not applicable.</i>
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# Income Tax Sections List!!

## Income from salary

Sec No.	Name of the Section
14	Heads of Income
15	Basis of charge for Salary
16	Deduction from Gross Salary
17	Perquisite

## Income from house property (HP)

22	Basis of charge for House property
23	Determining the Annual Value of HP
24	Deductions from Income from HP
25A	Provisions for Arrears of Rent & Unrealised Rent
26	Property owned by co-owners
27	Deemed owner

## Profits and Gain from Business and Profession (PGBP)

28	Basis of charge for PGBP
29	Computation of Income from PGBP
30	Rents, rates, taxes, Repairs and insurance for building
31	Repairs and insurance for machinery, plant and furniture
32	Depreciation
35	Expenditure on scientific research
35AD	Deduction in respect of specified business
35D	Amortisation of certain preliminary expenses
35DDA	Amortisation of expenditure incurred under VRS
36	Other deduction
37	General Deductions
37(2b)	Advertisement in brochure of political party disallowed
40(a)	expenses not deductible without TDS ,etc
40(b)	interest & remuneration to partners of PFAS
40A(2)	Excessive or unreasonable payment to relatives and associates
40A(3)	Payment in excess of 10,000
40A(7)	Provision for Gratuity
40A(9)	Contribution by employers to non-gratuity fund
41	Deemed Income
43A	Special provision consequential to change in exchange rates of currency
43B	Sum Payment allowed only if paid in cash
43C	Special provision for computation of cost of acquisition of certain cases
43CA	Land and building converted into stock in trade
44AA	Maintenance of accounts by certain persons



44AB	Tax audit
44AD	Presumptive basis for business
44ADA	Presumptive basis for Profession
44AE	Assessee in the business of plying ,hiring or leasing goods carriage

### Capital Gain

45	<b>Charging section</b>
46	Capital gain on distribution of asset of of companies in case of liquidation
46A	Capital gain on purchase by company its own shares or other specified securities
47	Transactions not treated 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 asset
50A	Special provision for cost of acquisition in case of depreciable assets
50B	Slump Sale
50C	Full value of consideration in certain cases
50D	FMV deemed to be full value of consideration
51	Advance money received
54	Profit on sale of property used for residential purpose
54B	Capital gain on transfer of land used for agricultural purpose not to be charge in certain cases
54D	Capital gains on compulsory acquisition of land and buildings not to be charged in certain cases
54EE	Capital gains on transfer of capital asset not to be charged in certain cases
54EC	Capital gain not to be charged on investment in certain cases
54F	Capital gain on transfer of capital asset not to be charged in case of investment in residential house
54G	Exemption on capital gains on transfer of assets in case of shifting industrial undertaking from urban areas
54GB	Capital gains of transfer of residential property not to be charge in certain cases
55	Meaning of cost of improvement and cost of acquisition
55A	Reference to valuation officer

### Basis for charge for income from other sources

56	<b>Basis of charge for income from other sources</b>
57	Deduction
58	Amount not deductible
59	Profits chargeable to tax

## Aggregation of income- clubbing of income

60	Transfer of income where there is no transfer of assets
61	Revocable transfer of asset
62	Transfer irrevocable for a specified period
63	Definition of "transfer" & "revocable transfer"
64	Income of individual to be included in the income of spouse, minor child
65	Liability of person in respect of income included in the income of another person
68	Cash credits
69	Unexplained investments
69A	Unexplained money
69B	Amount of investments, etc not fully disclosed in books of account
69C	Unexplained expenditure
69D	Amount borrowed or repaid on hundi

## Set off and carry forward of loss

70	Set off of loss from one source against income from another source under the same head of income
71	Set off of loss from one head against income from another
72	Carry forward and set off of business
73	Losses in speculation business
74	Losses under the head "capital gains"

## Deductions and Rebate

80C to 80U	Deductions - detailed table in the notes
87A	Rebate to be allowed in computing income tax
89	Relief for income -tax

## Determination of tax in special cases

111A	Tax on short term capital gains in certain cases
112	Tax on long term capital gains
112A	Tax on long term capital gains in certain cases
115BB	Tax on winnings from lotteries, crossword puzzles, races including horse races, card games and any other games of any sort or gambling or betting of any form or nature
115BBE	Tax on income referred to in section 68/69/69A/69B/69C/69D
115JC	Special provisions for payment of tax by certain persons other than company (AMT)
115JD	Tax credit for alternate minimum tax

## Return of Income

139	Return of Income
139(1)	Due date of filing of return
139(1A)	Option to furnish return to employer
139(1B)	Return through computer readable media

<b>139(1C)</b>	Exemption for filing return
<b>139(3)</b>	Loss return
<b>139(4)</b>	Belated return
<b>139(5)</b>	Revised return
<b>139(8A)</b>	Updated Return
<b>139(9)</b>	Defective return
<b>139A</b>	Permanent account number
<b>139AA</b>	Quoting of Aadhar number
<b>139B</b>	Scheme for submission of returns through tax return Preparers
<b>139C</b>	Power of board to dispense with furnishing documents, etc with return
<b>139D</b>	Filing of return in electronic form
<b>140</b>	Return by whom to be verified
<b>140A</b>	Self assessment

#### Deductions

#### 192-194N TDS deductions

#### Levy of Interest and fees

<b>234A</b>	Interest for defaults in furnishing return of income
<b>234B</b>	Interest for defaults in payment of advance tax
<b>234C</b>	Interest for deferment of advance tax
<b>234E</b>	Fees for default in furnishing TDS statements
<b>234F</b>	Fees for default in furnishing income tax return
<b>234H</b>	Due date for linking Aadhar or PAN u/s 139AA.

# Study Planner

Chapter Name	Lectures attended	HW/Notebook completed	Kahoot/App MCQ test	1 <sup>st</sup> Revision	2 <sup>nd</sup> Revision	Remarks
Basic Concepts						
Income from Salaries						
Income from House Property						
PGBP						
Capital Gains						
Income from Other Sources						
Agricultural Income						
Residence and Scope of Total Income						
Clubbing of Income						
Aggregation of Income, Set off and Carry Forward of Losses						

Chapter Name	Lectures attended	HW/Notebook completed	Kahoot/App MCQ test	1 <sup>st</sup> Revision	2 <sup>nd</sup> Revision	Remarks
Provisions For Filing Return of Income and Self - Assessment						
Deductions from Gross Total Income						
Computation of Total Income & Tax Payable						
Advance Tax						
TDS & TCS						
Incomes which do not form a part of Total Income						
115 Series and Special Rates						

## Daily Countdown!



## For Tax Related Queries..



PKD Pooja Kamdar Date



poojakamdardate



Pooja Kamdar Date

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