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Direct Tax

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PREFACE

Dear Students,

Welcome to the world of knowledge -- **J.K. Shah Classes !**

I have the pleasure of presenting this study material to you. It contains exhaustive and comprehensive theory and good number of good problems, selected so carefully from wide-ranging sources. It covers the problems which will bring in to focus all practical applications of various tax provisions that you need to study in order to fortify yourself for your examination. The material is so exhaustive that it just leaves out nothing. No wonder, then, that whenever odd things are asked, our students have had no difficulty at all.

The subject will be taught by eminent professors who are highly experienced and well-versed with the job.

The coaching is very exhaustive and wholly concept based. The conceptual explanations are entirely supported by good problems that cover the past and the problems which peep into the future. Also, the coaching is very systematic, well-planned and absolutely time bound. For a change, say good-bye to mechanical learning. I am sure you will feel that the study is a pleasurable job and not a painful exercise.

I wish you a very happy study time.

BEST OF LUCK !

- Prof J.K. Shah,
Chartered Accountant

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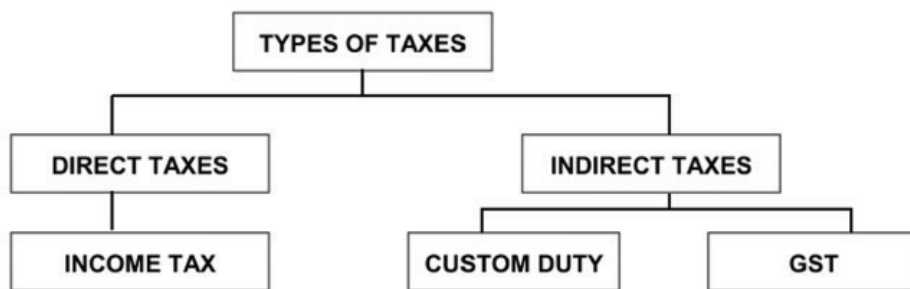
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INTRODUCTION

What is a Tax?

Let us begin by understanding the meaning of tax. Tax is a fee charged by a government on a product, income or activity. There are two types of taxes – direct taxes and indirect taxes (See Chart below this paragraph). If tax is levied directly on the income or wealth of a person, then it is a direct tax e.g. income-tax. If tax is levied on the price of a good or service, then it is called an indirect tax. In the case of indirect taxes, the person paying the tax passes on the incidence to another person.

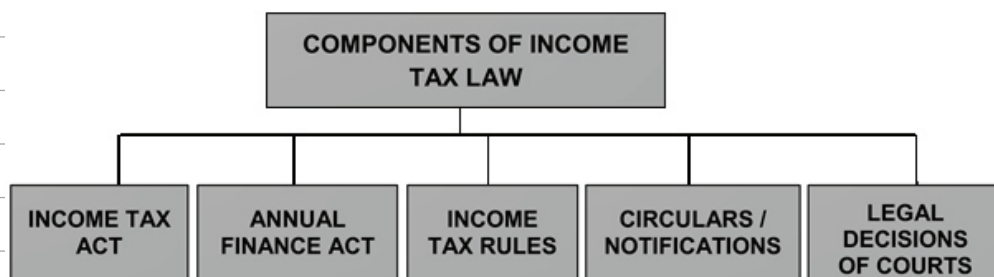


Why are Taxes Levied?

The reason for levy of taxes is that they constitute the basic source of revenue to the government. Revenue so raised is utilized for meeting the expenses of government like defence, provision of education, health-care, infrastructure facilities like roads, dams etc.

Overview of Income-Tax Law in India

Income-tax is the most significant direct tax. In this material, we would be introducing the students to the Income-tax law in India. The income-tax law in India consists of the following components–



The various instruments of law containing the law relating to income-tax are explained below:

Income-tax Act, 1961: 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. This Act came into force on 1st April, 1962. The Act contains 298 sections and XIV schedules. These undergo change every year with additions and deletions brought about by the annual Finance Act passed by Parliament. In pursuance of the power given by the Income-tax Act, 1961 rules have been framed to facilitate proper administration of the Income-tax Act, 1961.

The Finance Act: 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.

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

- Part I of the First Schedule to the Finance Act specifies the rates of tax applicable for the current Assessment Year.
- Part II specifies the rates at which tax is deductible at source for the current Financial Year.
- Part III gives the rates for calculating income-tax for deducting tax from income chargeable under the head "Salaries" and computation of advance tax.
- Part IV gives the rules for computing net agricultural income.

Income-tax Rules: The administration of direct taxes is looked after by the Central Board of Direct Taxes (CBDT). The CBDT is empowered to make rules for carrying out the purposes of the Act. For the proper administration of the Income-tax Act, 1961, the CBDT frames rules from time to time. These rules are collectively called Income-tax Rules, 1962. It is important to keep in mind that along with the Income-tax Act, 1961, these rules should also be studied.

Circulars and Notifications: Circulars are issued by the CBDT from time to time to deal with certain specific problems and to clarify doubts regarding the scope and meaning of the provisions. These circulars are issued for the guidance of the officers and/or assesseees. The department is bound by the circulars. While such circulars are not binding on the assesseees, they can take advantage of beneficial circulars. Notifications are issued by the Central Government to give effect to the provisions of the Act.

For example, under section 10(15)(iv)(h), interest payable by any public sector company in respect of such bonds or debentures and subject to such conditions as the Central Government may, by notification in the Official Gazette, specify in this behalf would be exempt. Therefore, the bonds and debentures, interest on which would qualify for exemption under this section are specified by the Central Government through Notifications.

The CBDT is also empowered to make and amend rules for the purposes of the Act by issue of notifications. For example, under section 35CCD, the CBDT is empowered to prescribe guidelines for notification of skill development project. Accordingly, the CBDT has, vide Notification No.54/2013 dated 15.7.2013, prescribed Rule 6AAF laying down the guidelines and conditions for approval of skill development project under section 35CCD.

Case Laws: The study of case laws is an important and unavoidable part of the study of income-tax law. It is not possible for Parliament to conceive and provide for all possible issues that may arise in the implementation of any Act. Hence the judiciary will hear the disputes between the assesseees and the department and give decisions on various issues. The Supreme Court is the Apex Court of the country and the law laid down by the Supreme Court is the law of the land. The decisions given by various High Courts will apply in the respective states in which such High Courts have jurisdiction.

Income tax Act 1961

Introduction

In India, Constitution is the parent law. All other laws should be enacted without exceeding the framework of the constitution and subject to the norms laid down therein. The Constitution of India empowers Central Government to levy tax on income. By virtue of this power and to achieve this objective the Income Tax Act 1961 was enacted in the place of the Income tax Act 1922.

According to **Section 1** of the Income tax Act. The Act is to be called as “The Income Tax Act 1961” and it extends to **whole of India**. It came into force on the 1st day of April 1962 i.e from AY 1962-63 onwards.

Preliminary

(a) **Section 2** of the Income Tax Act gives definition of the various terms and expressions used in the Act. Unless the context otherwise requires, these definitions should be applied. The words “means”, “Includes” and “means and includes” are used in these definitions and the significance of these terms needs to be understood.

- (b) When definition uses the word “means”, the definition is self - explanatory, restrictive and in a sense exhaustive. It implies that term or expression so defined means only as to what it is defined as and nothing else. For example, the terms Agricultural Income, Assessment Year, Capital Asset are exhaustively defined.
- (c) When the legislature wants to widen the scope of a term or expression and where an exhaustive definition cannot be given, it uses the word includes in the definition. Hence, the inclusive definition provides an illustrative meaning and not an exhaustive meaning. In practical application the definition could include what is not specifically stated or mentioned in the definition so long as the stipulated criteria are satisfied. To illustrate reference is drawn to the definition of the terms Income, Person, Transfer.
- (d) When the legislature intends to define a term or expression to mean something and also intends to specify certain items to be included both the words means and includes are used. Such definition is not only exhaustive but also illustrative in specifying what is intended to be included. Sometimes specific items are included in an exhaustive definition in order to avoid ambiguity and with a view to provide clarity. One can find that these words are used in the definition of the terms Assessee, Firm etc.
- (e) Apart from the definition under section 2 the Act defines various other terms under the respective sections where they are used. For Example Section 17(2) defines perquisite, Section 3 defines Previous year.

Section 4: Charging Section

As per Section 4 of the Income tax Act, 1961 Income-tax is payable by every Person on his total Income earned in the Previous Year at the Rates applicable for the relevant Assessment Year.

DEFINITIONS

Some of the words used in the above statement require elaboration

1. PERSON: [Section 2 (31)]

Section 4 provides for charging tax on every person and person is defined under section 2(31) as including :

1. An individual.
2. A Hindu Undivided Family (H.U.F.).
3. A Company.
4. A Firm; [Partnership Firm Assessed as Such (PFAS)].

5. An Association of Persons (A.O.P.) or Body Of Individuals (B.O.I.) whether incorporated or not.
6. Local Authority.
7. Every artificial juridical person, not falling under any one of the preceding categories.

Thus, this section enumerates seven types of assessee who are covered under the Act. The seventh category is residuary and includes all sorts of artificial juridical bodies not covered under any of the first six categories.

(2) **INCOME [Section 2(24)]**

Income is defined under section 2(24) of the Act. The definition contained in that section is inclusive and not exhaustive, which means that income includes not only those items which are enumerated in the section but besides it may include various other items to which the natural meaning of the word may apply.

Section 2(24) defines as "Income" includes the following;

1. Profits and gains which are covered by section 28 or section 41.
2. Dividend
3. In case of charitable or religious trust or institution or educational institution or university or hospital, or an electoral trust, voluntary contribution received.
4. The value of any perquisite taxable u/s 17(2), or profit in lieu of salary taxable u/s 17(3), under the head salaries.
5. Any special allowance granted by the employer to meet expenses wholly, necessarily and exclusively for the performance of the duties of employment & dearness allowance & city compensatory allowance.
6. The value of any benefit or perquisite received by :
 - director of a company,
 - person who has a substantial interest in the company,
 - relative of director or person who has substantial interest in the company, from a company, which otherwise was the obligation payable by such persons.
7. The value of any benefit or perquisite obtained / paid by
 - by the representative assessee on behalf of the beneficiary -
 - which otherwise was the obligation payable by such beneficiary.
8. Any capital gains chargeable under section 45.
9. The profit and gain of any business or insurance carried on by a mutual insurance company or by a co-operative society, computed in accordance with section 44.

10. The profit and gains of any business of banking (including providing credit facilities) carried on by a cooperative society with its members.
11. Any winnings from lotteries, crossword, puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever.
12. Any sum received by the assessee from his employees as contributions to any provident fund or super annuation fund or any fund set up under the provisions of the Employee's State Insurance Act, 1948, or any other fund for the welfare of such employees.
13. Any sum received under a keyman insurance policy including the sum allocated by way of bonus on such policy.
14. Any sum of money or any property (movable or immovable) received for no consideration or inadequate consideration shall be considered as income, subject to the provisions of section 56.
15. Any consideration received by a closely held company for issue of shares as exceeds the fair market value of the shares referred to in section 56.
16. Any sum referred to in Section 56(2)(xii) & section 56(2)(xiii).
17. Any assistance in the form of subsidy, grant, cash incentive, duty drawback, concession or reimbursement provided by Central Government or State Government or any authority or any agency, except for-
 - (a) Subsidy provided for acquiring fixed assets for business purposes; and
 - (b) Subsidy provided by Central Government for the corpus of a trust or institution set up by Central/State Government.

Following are the broad principles to understand the concept of "Income":

1. **Different forms of income** - Income may be received in cash or in kind. When it is received in kind, its valuation is to be made according to the rules prescribed in the Income-tax Rules. If however there is no prescribed rule, valuation thereof is made on the basis of market value.
2. **Receipt Vs. Accrual** - Income arises either on receipt basis or on accrual basis. Income may accrue to a tax payer without its actual receipt.
 - Salaries: Due or receipt whichever is earlier
 - House - property: Due basis
 - Business & Profession : As per method of accounting regularly followed
 - Capital Gains: Due basis
 - Income from other sources: As per method of accounting regularly followed.

3. **Relief or reimbursement of expenses is not treated as income** - Mere relief or reimbursement of expenses is not treated as income; for instance, reimbursement of conveyance expenses to an employee is not an income.
4. **Illegal income** - The income - tax law does not make any distinction between income accrued or arisen from a legal source and income tainted with illegality.
5. **Disputed title** - Income-tax assessment cannot be held up or postponed merely because of existence of a dispute regarding the title of income.
6. **Source of income need not exist in the assessment year:** It is not necessary that a source of income should exist in the assessment year.

Question.

Write short notes on Diversion of income

Answer

Where by an obligation, income is diverted before it reaches the assessee, it is "diversion of income" and not taxable. Conversely, after earning the income, if it is required to be applied to discharge an obligation, it is merely an "application of income" and income is chargeable to tax.

'Diversion of income' means handing over the income or part of it under a legal obligation, i.e. the income in fact relates to some other person and because of the legal right of some other person, it is handed over to him. Thus it cannot be considered as income of the person who has initially received it and subsequently handed it over to the other person. It will be considered as income of the other person who has subsequently received it. Some examples of Diversion of Income are :

- Right of maintenance of dependants or of co-parceners on partition of HUF.
- Right under a statutory provision.
- A charge created by a decree of a court of law.

Example: A and B are the joint authors of a book and are to share the remuneration equally. The book is published in December, 2023 and in January 2024, as per the Contract, A, the first author receives the entire remuneration of 2,50,000 and 50% of the same is paid by A to B subsequently. This payment by A to B is "**diversion of income by overriding title**", and his taxable income is only ₹1,25,000 and B's income will also be ₹1,25,000. Now whatever A & B spend / invest out of their income of ₹1,25,000 each is an "**application of income**".

GROSS TOTAL INCOME (G.T.I.) [Section 80B(5)]

G.T.I. means the 'total income' computed under the five heads.

TOTAL INCOME [Section 2(45)]

It means the total amount of income referred to in section 5, computed in the manner laid down in this Act.

*As per section 14, income of a person is computed under the following five heads

1. Income from salaries
2. Income from house property
3. Profits or gains of business or profession
4. Capital gains
5. Income from other sources

The aggregate of above is G.T.I. from which deductions under sections 80C to 80U are deducted, and thus we arrive at the total income.

(3) PREVIOUS YEAR [Section 2(34)]

It means the previous year as defined in section 3. Section 3 has defined the previous year as the financial year immediately preceding the assessment year. Income tax is payable on the income earned during the previous year. It is brought to tax in the immediately succeeding financial year, which is called as an Assessment year. Therefore, the income earned during the previous year 2023-24.

i.e. 1st of April 2023 to 31st March, 2024, will be charged to tax in the assessment year 2024-25.

Provided that, in the case of a business or profession newly set up, or a source of income newly coming into existence, in the financial year, the previous year shall be the period beginning with the date of setting up of the business or profession or, as the case may be, the date on which the source of income newly comes into existence and ending with the said financial year i.e. 31st March.

For e.g. Mr. "S" sets up a new business on 10th July, 2023 then the period from 10.7.2023 to 31.3.2024 will be his first previous year for the assessment year 2024-2025. Thereafter every year a period of 12 months of April-March will be his previous year. Thus only in the first year previous year will be for a broken period.

(4) ASSESSMENT YEAR [Section 2(9)]

Assessment year means the period of twelve months commencing on the 1st day of April every year.

This means that every financial year beginning on the first of April and ending on the 31st of March, is the assessment year. For example, the period from the 1st April, 2024 to 31st March 2025 is called assessment year 2024 - 2025 in respect of previous year 2023 - 2024.

Thus Income-Tax is an annual tax, charged on the total income earned by a person. For computation of Income, the law applicable for the relevant assessment year should be referred. Income-tax law changes frequently. Income taxable in a year may be exempt or taxable differently in another assessment year.

The rates of tax may change from one assessment year to another. Thus the amount of tax may differ from one assessment year to another, although the income earned is the same in both the years.

(5) TAX RATES FOR ASSESSMENT YEAR 2024-2025

Particulars	Individual/H.U.F./ A.O.P./B.O.I/A.J.P.	Firm & Local Authority	Indian Company	Foreign Company
Basic tax	Slab rates	Flat rate of 30%	Flat rate of 30%	Flat rate of 40%
Add: Surcharge	If Total Income > ₹50 lakhs, 10% of Basic tax	If Total Income > ₹ 1 Crore, 12% of Basic tax	If Total Income > ₹ 1 Crore but < = ₹ 10 crores, 7% of Basic tax	If Total Income > ₹ 1 Crore but < = ₹ 10 crores, 2% of Basic tax
	If Total Income > ₹ 1 Crore, 15% of Basic tax If total income > 2 crores, 25% of Basic tax If total income > 5 crore, 37% of Basic tax		If Total Income > ₹10 crores, 12% of Basic tax	If Total Income > ₹ 10 crores, 5% of Basic tax.
Add: Health & Education Cess	4% of (Basic tax – Rebate + Surcharge)	4% of (Basic tax + Surcharge)	4% of (Basic tax + Surcharge)	4% of (Basic tax + Surcharge)
TAX PAYABLE	XXXX	XXXX	XXXX	XXXX

(I) SLAB RATES

Resident Senior Citizens (Age > = 60 years but < 80 years at any time during the P.Y.)		Resident Very Senior / Super Senior Citizens (Age > = 80 years at any time during the P.Y.)		Others (Individuals aged < 60 years at any time during the P.Y., H.U.F, A.J.P.) and all not resident individuals	
Upto 3,00,000	NIL	Upto 5,00,000	NIL	Upto 2,50,000	NIL
3,00,001-5,00,000	5%	5,00,001-10,00,000	20%	2,50,001-5,00,000	5%
5,00,001-10,00,000	20%	> 10,00,000	30%	5,00,001- 10,00,000	20%
> 10,00,000	30%			> 10,00,000	30%

₹ 3,00,000, ₹ 5,00,000 and ₹ 2,50,000 are called as " BASIC EXEMPTION LIMIT" since income tax is payable by the person on the income exceeding this limit.

Note 1:

If turnover or gross receipts for previous year 21 - 22 is upto 400 crores = basic tax is 25% (applicable only to companies).

Note 2:

If an individual is born on 1/4/1964, then he / she turn 60 years of age on 31/3/2024. Therefore he/ she will be considered as senior citizen for the P.Y. 2023-24 and will be entitled to higher basic exemption limit of ₹ 3,00,000

(II) REBATE UNDER SECTION 87A

An **individual** who is **resident** in India, and whose **total income does not exceed ₹ 5,00,000**, shall be entitled to a deduction, of the amount of "Basic tax" (calculated as per slab rates or section 115BAC) or a maximum of ₹ 12,500, whichever is less. This rebate shall be reduced from the basic tax. Please note that this rebate is available to "individuals" only & not to the other six persons as per section 2(31).

Note: No Rebate available from tax payable on LTCG u/s 112A.

(III) MARGINAL RELIEF

(ia) For persons other than companies as income-tax (basic tax as per slab rates or u/s 115BAC)

The total amount payable as income-tax and surcharge on total income exceeding 50 lakhs rupees shall not exceed the total amount payable as

income-tax on a total income of 50 lakhs rupees by more than the amount of income that exceeds one crore rupees.

If

[Basic tax + S.C. on Total Income] – [Basic tax on Total Income of ₹ 50 lakhs] > Income in excess of ₹ 50 lakhs,

Then

Marginal Relief = [Basic tax + S.C. on Total Income] – [Basic tax on Total Income of ₹ 50 lakhs] - Income in excess of ₹ 50 lakhs

(ib) For persons other than companies

The total amount payable as income-tax and surcharge on total income exceeding one crore rupees shall not exceed the total amount payable as income-tax on a total income of one crore rupees by more than the amount of income that exceeds one crore rupees.

If

[Basic tax + S.C. on Total Income] – [Basic tax on Total Income of ₹ 1 crore] > Income in excess of ₹ 1 crore, Then

Marginal Relief = [Basic tax + S.C. on Total Income] – [Basic tax on Total Income of ₹ 1 crore] - Income in excess of ₹ 1 crore.

(ii) For companies having income

(a) exceeding ₹ 1 crores but not exceeding ₹ 10 crores and

(b) exceeding ₹ 10 crores.

The total amount payable as income-tax and surcharge on total income exceeding one crore rupees but not exceeding ten crore rupees, shall not exceed the total amount payable as income-tax on a total income of one crore rupees, by more than the amount of income that exceeds one crore rupees.

The total amount payable as income-tax and surcharge on total income exceeding ten crore rupees, shall not exceed the total amount payable as income-tax and surcharge on a total income of ten crore rupees, by more than the amount of income that exceeds ten crore rupees.

If

[Basic tax + S.C. on Total Income] – [Basic tax + S.C. on Total Income of ₹ 10 crore] > Income in excess of ₹ 10 crore,

Then

Marginal Relief = [Basic tax + S.C. on Total Income] – [Basic tax on Total Income of ₹ 10 crore] - Income in excess of ₹ 10 crore.

(IV) With effect from P.Y. 23-24 A.Y. 24-25 Section 115BAC(1A) is applicable by default. This tax regime is applicable to (R&OR, R BUT NOR, NR, Normal senior citizen & Very senior citizen):

- Individual
- H.U.F
- AOP (Not applicable to Co-operative society)
- BOI
- AJP

Total income	Tax Rate (Under the new regime)
Up to 3,00,000	Nil
3,00,001 to 6,00,000 (i.e. difference of 3,00,000)	5%
6,00,001 to 9,00,000 (i.e. difference of 3,00,000)	10%
9,00,001 to 12,00,000 (i.e. difference of 3,00,000)	15%
12,00,001 to 15,00,000 (i.e. difference of 3,00,000)	20%
Above 15,00,000 (i.e. 15,00,001 & onwards)	30%

(a) For resident individual having taxable income of ≤ 7 lakhs, & who is covered by sec 115BAC, rebate u/s 87A is least of:-

- Basic tax applicable

or

Max. 25,000

(b) For resident individual who is covered by sec 115BAC and who is eligible for marginal relief, will get it.

Other Points:

1. As stated initially, this scheme is applicable by default i.e. if any assessee (other than having business/profession income) wants to opt old tax regime, then he has to do so before filing his return of income, u/s 139(1), every year.
2. For persons having business/profession income, the option is to be exercised on or before the due date of filing the return of income u/s 139(1) and such option once exercised shall apply for that previous year and to all subsequent years.

One time change is possible. After such change is done once, then change is never possible unless business stops.

3. For individual/H.U.F. maximum surcharge will be 25% (instead of 37%) when covered by 115BAC.

4. Which deduction/exemptions not to allowed u/s 115BAC?

1. Leave Travel Concession – section 10(5)
2. House Rent Allowance – section 10(13A)
3. Exemption for allowance u/s 10(14) except – transport allowance, Conveyance, daily allowance, tour-travel-transfer allowance
4. Allowance to MPs /MLAs – section 10(17)
5. Clubbed income of minor upto Rs.1,500 – section 10(32)
6. Exemption for unit in SEZ – section 10AA
7. Entertainment allowance deduction u/s 16(ii) and Professional tax paid deduction u/s 16(iii)
8. Interest in respect of Self Occupied Property – section 24(b)
9. Set off of loss under the head income from house property against other heads – Section 71 or any loss of earlier years belonging to any deductions mentioned in this list
10. Additional depreciation – section 32(1)(iia)
11. Deduction under sections 32AD, 33AB and 33ABA
12. Specified deduction for donations or for expenditure on scientific research- section 35(1)(ii)/(iia)/(iii) or section 35(2AA)
13. Weighted deduction for expenditure on specified business/agricultural extension project-section 35AD and 35CCC
14. Deduction under chapter VI-A
(Such as section 80C, 80D, 80TTA, 80TTB, 80G etc) other than following:
 - a) 80CCD(2) – Employer’s contribution in notified pension scheme
 - b) 80CCH(2) – Contribution by the Central Government into the Agniveer Corpus fund of the assessee.
 - b) 80JJAA – Employment of new employees
 - c) 80LA – IFSC centre

(v) **Rounding - off of Income / Tax [Section 288A / 288B]**

The taxable income / tax shall be rounded off to the nearest multiple of ten rupees and for this purpose any part of a rupee consisting of paise shall be ignored and

thereafter if such amount is not a multiple of ten, then, if the last figure in that amount is five or more, the amount shall be increased to the next higher amount which is multiple of ten and if the last figure is less than five, the amount shall be reduced to the next lower amount which is a multiple of ten.

Example:

Income / tax before rounding off Income/Tax after rounding off as per sec. 288A / 288 B

1, 23, 454.90	1, 23, 450
1, 23, 455.00	1, 23, 460
1, 23, 458.90	1, 23, 460
1, 23, 464.80	1, 23, 460

RESIDENCE OF AN ASSESSEE

WHAT IS RELEVANCE OF RESIDENTIAL STATUS

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

WHAT ONE MUST KNOW FOR DECIDING RESIDENTIAL STATUS

- Residential status is a term coined under Income Tax Act and has nothing to do with nationality or domicile of a person. An Indian, who is a citizen of India can be non-resident for Income-tax purposes, whereas an American who is a citizen of America can be resident of India for Income-tax purposes. Residential status of a person depends upon the territorial connections of the person with this country, i.e., for how many days he has physically stayed in India.
- The residential status of different types of persons is determined differently. Similarly, the residential status of the assessee is to be determined each year with reference to the “previous year”. The residential status of the assessee may change from year to year. What is essential is the status during the previous year and not in the assessment year.
- **Duty of Assessee** - It is assessee’s duty to place relevant facts, evidence and material before the Income Tax Authorities supporting the determination of Residential status.
- **Dual Residential Status is possible** - A person may be resident of one or more countries in a relevant previous year e.g., Mr. X may be resident of India during previous year 2023 - 24 and he may also be resident/non-resident in England in the same previous year. The emergence of such a situation depends upon the following
 - (a) the existence of the Residential status in countries under considerations
 - (b) the different set of rules having laid down for determination of residential status.

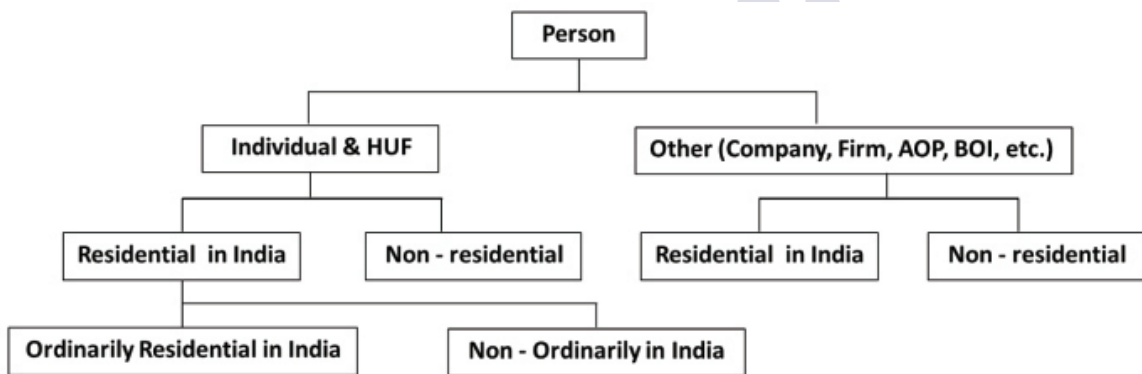
→ **Different residential status** – An assessee is either (a) Resident in India, or (b) non-resident in India. However, a resident Individual or a Hindu undivided family has to be (a) resident and ordinarily resident, or (b) resident but not ordinarily resident. Therefore, an individual and a Hindu undivided family can either be:

- (a) Resident and ordinarily resident
- (b) resident but not ordinarily resident
- (c) Non resident in India.

All other assesseees (viz, a firm, an association of person, a joint stock company and every other person) can either be:

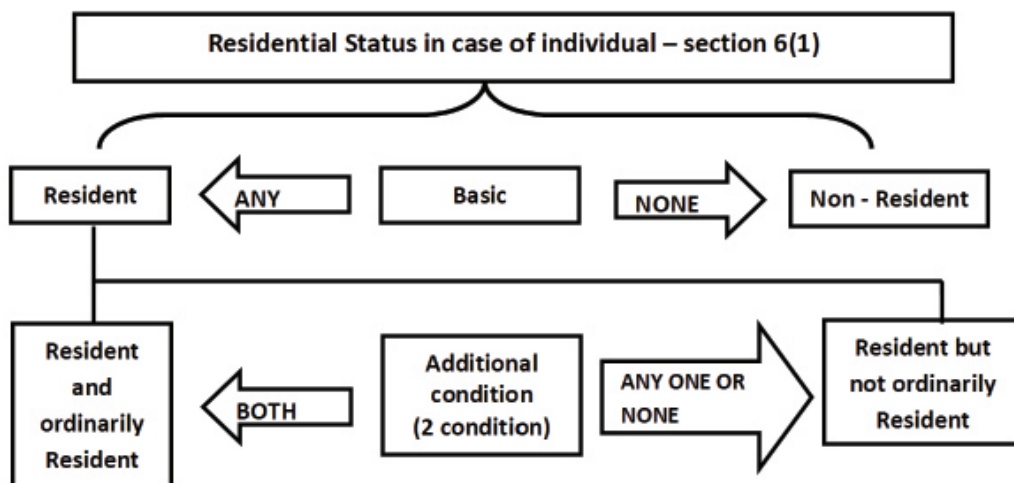
- (a) Resident in India or
- (b) Non-resident in India

The following chart highlights the same –



The following chart highlights the same –

HOW TO DETERMINE RESIDENTIAL STATUS OF AN INDIVIDUAL – SECTION 6(1)



1. Basic Conditions:

(a) If the Individual stayed in India for a period of 182 DAYS OR MORE during the Relevant Previous Year (RPY), he is Resident of India;

(OR)

(b) (i) If he stayed in India for a period of 60 DAYS OR MORE during Relevant Previous Year (RPY)

AND

(ii) 365 DAYS OR MORE during the four preceding Previous Years, he is Resident of India.

If the assessee fails to satisfy either of the above basic conditions, as applicable, then the assessee is a Non-Resident for that Relevant Previous Year.

2. Additional Conditions: Sec. 6(6) (a)

(1) Resident in India for at least 2 years out of the preceding 10 Previous Years. (Preceding to relevant PY)

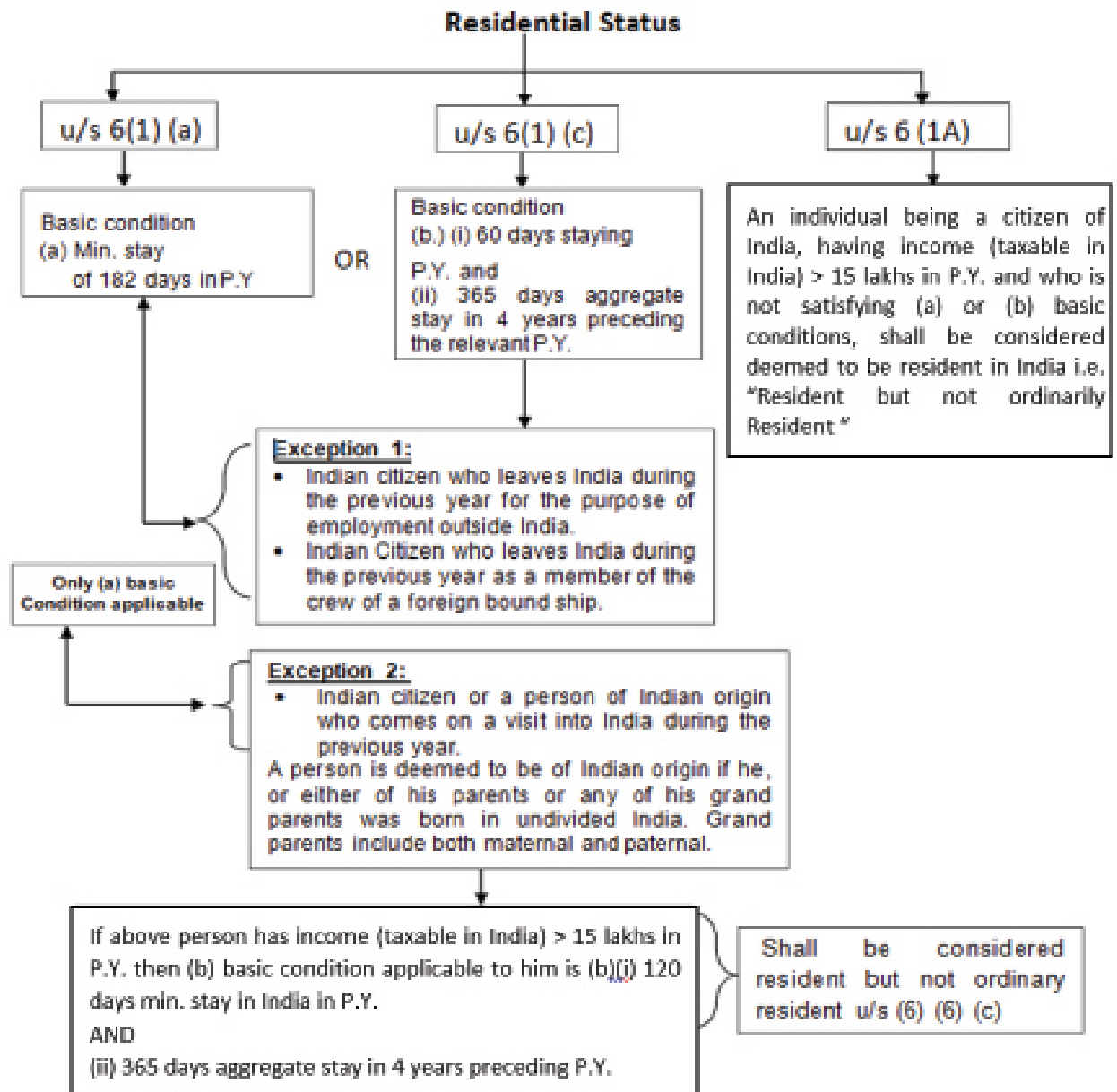
AND

(2) Stay in India for at least 730 days during the 7 preceding Previous Years (Preceding to relevant PY).

If the assessee satisfies above additional conditions, then assessee is Resident and ordinarily otherwise Resident but not ordinarily resident.

Special exceptional situations:

For the following persons, condition mentioned in 1(a) above shall only apply to determine their Residential Status i.e. i.e. only (a) basic condition will be applicable and not (b) basic condition.



Note:

1. The day on which he enters India as well as the day on which he leaves India shall be taken into account as the stay of the Individual in India.
2. The stay in India need not be at the same place
3. It is also not essential that the stay should be continuous.
4. The place of stay and purpose of stay in India, is not material

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, there is uncertainty regarding the manner and the basis of determining the period of stay in India for an Indian citizen, being a crew member.

To remove this uncertainty, Explanation 2 to section 6(1) provides that in the case of an

Individual, being a citizen of India and a member of the crew of a foreign bound ship leaving India, the period or periods of stay in India shall, in respect of such voyage, be determined in the prescribed manner and subject to the prescribed conditions.

Accordingly, the CBDT has, vide Notification No.70/2015 dated 17.8.2015, inserted Rule 126 in the Income-tax Rules, 1962 to compute the period of stay in such cases.

According to Rule 126, for the purposes of section 6(1), in case of an individual, being a citizen of India and a member of the crew of a ship, the period or periods of stay in India shall, in respect of an eligible voyage, not include the following period:

Period to be excluded

Period commencing from	and	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		the date entered into the Continuous Discharge Certificate in respect of signing off by that individual from the ship in respect of such voyage

Meaning of certain terms:

	Terms	Meaning
(a)	Continuous Discharge Certificate	This term has the meaning assigned to it in the Merchant Shipping (Continuous Discharge Certificate-cum Seafarer's Identity Document) Rules, 2001 made under the Merchant Shipping Act, 1958.
(b)	Eligible voyage	A voyage undertaken by a ship engaged in the carriage of passengers or freight in international traffic where – (i) for the voyage having originated from any port in India, has as its destination any port outside India; and (ii) for the voyage having originated from any port outside India, has as its destination any port in India.

HOW TO DETERMINE RESIDENTIAL STATUS OF AN HINDU UNDIVIDED FAMILY– SECTION 6(2)

A Hindu Undivided Family is said to be R&OR/RNOR in India if control and management of its affairs is, wholly or partly, situated in India. A Hindu Undivided Family is non-resident in India if control and management of its affairs is wholly situated outside India.

1. Control and management means de- facto control and management and not merely the right to control or manage. Control and management is situated at a place where the head, the seat and the directing power are situated.
2. And ordinarily/ not ordinarily depends upon the individual residential status of the karta, i.e. satisfaction of additional conditions by the Karta.

HOW TO DETERMINE RESIDENTIAL STATUS OF FIRM AND ASSOCIATION OF PERSON – SECTION 6(2)

A partnership firm and an association of person are said to be resident in India if control and management of their affairs are wholly or partly situated within India during the relevant previous year.

HOW TO DETERMINE RESIDENTIAL STATUS OF COMPANY [SECTION 6(3)]

An Indian company is always resident in India. A foreign company is resident in India only if its "Place of effective management", in that year, is in India.

- The term "Place of effective management" means 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.
- Usually control and management of a company's affairs is situated at the place where meetings of board of directors are held. Moreover, control and management referred to in section 6 is central control and management and not the carrying on of day to day business by servants, employees or agents.
- The term "control" does not mean shareholding control.

HOW TO DETERMINE RESIDENTIAL STATUS OF "EVERY OTHER PERSON" [SECTION 6(4)]

Every other person is resident in India if control and management of his affairs is wholly or partly situated within India during the relevant previous year. On the other hand, every other person is non-resident in India if control and management of its affairs is wholly situated outside India.

SCOPE OF INCOME (SECTION 5)

Sr. No.	Situations	Whether taxable in the case of			
		R & OR	R N OR	NR	
1.	Income accruing or arising in India whether received in India or outside India	Yes	Yes	Yes	Indian Income
2.	Income received in India for the 1st time whether accrued in India or outside India.	Yes	Yes	Yes	
3.	Income deemed to be received in India whether accrued in India or outside India (Sec. 7)	Yes	Yes	Yes	
4.	Income deemed to accrue or arise in India whether received in India or outside India (Sec. 9)	Yes	Yes	Yes	
5.	Income received and accrued outside India from a business controlled in or profession set up in India	Yes	Yes	No	Foreign Income
6.	Income received and accrued outside India from a business controlled from outside India or a profession setup outside India	Yes	No	No	
7.	Income accrued and received outside India (other than business and profession)	Yes	No	No	
8.	Income earned and received outside India for an earlier year, but remitted to India in the current year (whether tax incidence arises at the time of remittance? - No, as earlier is taxed on accrual or due basis.)	No	No	No	

Incomes deemed to accrue or arise in India [Section 9]

Certain Incomes are deemed to accrue or arise in India u/s 9 even though they may actually arise outside India. The following is a list of such incomes in simple words.

1. Any business connection in India is taxable in India
2. Income through or from any property, any asset or source of income in India.
3. Income through the transfer of Capital Asset situated in India.
4. Income which falls under the head "Salaries" shall be regarded as income earned in India if the income is payable for -
 - service rendered in India, and
 - the rest period or leave period, which is preceded and succeeded by services, rendered in India and forms part of the service contract of employment.
5. Salary paid by the Government to a citizen of India for rendering service outside India. However the allowances and perquisites paid outside India by the Government to the citizen of India, is exempt u/s 10(7).
6. Dividend paid by an Indian company outside India.
7. Interest payable by:
 - (a) Government ; or
 - (b) any resident person, unless the interest is payable on any debt incurred or money borrowed and used for a business or profession carried on by him outside India or for earning any income from any source outside India ; or
 - (c) any non-resident person, when the interest is payable on any debt incurred or money's borrowed and used **for the purpose of a business or profession carried on by him in India.**
8. Royalty payable by:
 - (a) Government ; or
 - (b) any resident person, unless the royalty is payable in respect of any right, property or information used or services utilised for the purposes of a business or profession carried on by him outside India or for earning any income from any source outside India ; or
 - (c) any non-resident person, when the royalty is payable in respect of any right, property or information used or services utilised for the purposes of a business or profession carried on by him in India or for earning any income from any source in India.
9. Income by way of fees for technical services payable by :
 - (a) Government ; or
 - (b) any resident person, unless the technical fees is payable for a business or

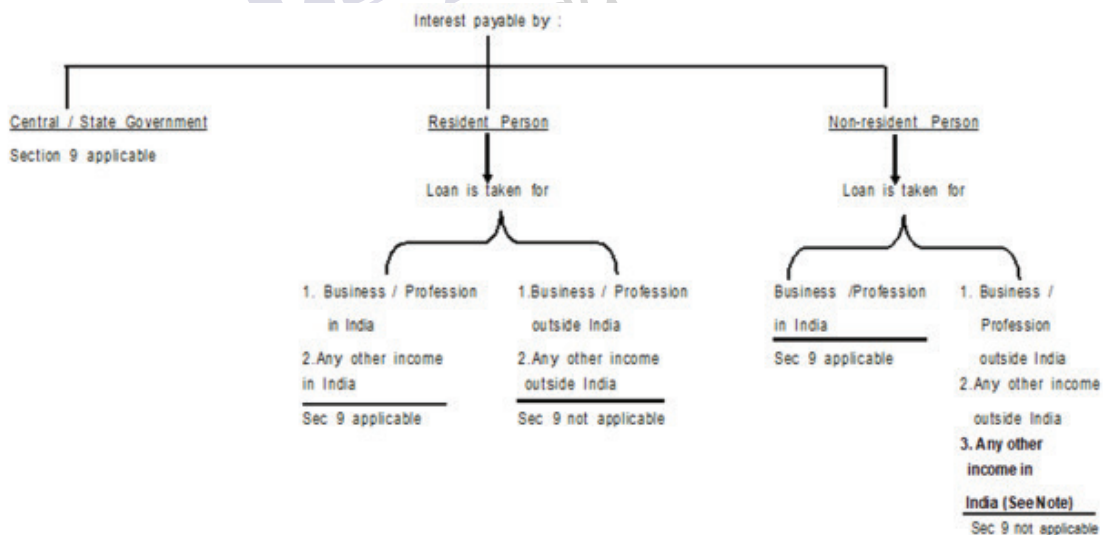
profession carried on by him outside India or for earning any income from any source outside India ; or

- (c) any non-resident person, when the technical fees is payable for a business or profession carried on by him in India or for earning any income from any source in India.

The income of the non-resident shall be deemed to accrue or arise in India, whether or **not** -

- (i) the non-resident has a residence or place of business or business connection in India
OR
- (ii) the non-resident has rendered services in India.
OR
- (iii) The possession or control of such right, property or information is with the payer or used directly by the payer or the location is in India.

10. Income arising outside India, being any sum of money referred to in sub clause (xvii) of clause (24) of section 2, paid on or after the 5th day of July, 2019 by a person resident in India to a non - resident, not being a company, or to a foreign company.; on or after 1-4-23 to a person not ordinarily resident in India.



Note : For Royalty & Fees for Technical services, Sec 9 shall be applicable if

(1) The payer is non-resident ;

(2) The patent , formula etc (for Royalty) or services (for Fees) are used for earning ANY OTHER INCOME IN INDIA.

Note: For Royalty & Fees for Technical services, Sec9 shall be applicable if

1. The payer is non-resident;
2. The patent, formula etc. (for Royalty) or services (or fees) are used for earning ANY INCOME IN INDIA.

CLASSWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Mr. J is a citizen of Japan. He visited India for the first time of 1st April, 2018 and stayed in India upto 10th April 2021. He again came back to India on 12th January, 2024 and stayed here thereafter. Determine his residential status for Assessment Year 2024-25.

Question 2

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) Determine his residential status for A.Y. 2024-25.
- (b) Would your answer be different 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. 23-24?

Question 3

Mr. X is Professor at IIM, Ahmedabad. On 10th August, 2023, he left India to take up the professor's job at London School of Economics. He had never been out of India in the past. Determine his residential status for A.Y. 2024-25.

- (a) Would your answer be different if he had gone on a leisure trip?

Question 4

'F' was born in FRANCE in 1969 and his father was born in Australia in 1939, but F's Grandfather was born in Dhaka in 1915. Will 'F' be a resident in India if he visits India for 181 days during the previous year 2023-24.

Determine Residential status for assessment year 2024 – 25, assuming his Indian income is \leq 15 Lakhs.

Question 5

X, a citizen of India, left India for the 1st time on 6.6.2020 for employment abroad. During 2021-22 and 2022-23 he visited India for 145 days and 165 days respectively. In the previous year 2023-24 he came to India on 7.4.23 and left on 30.11.23.

Determine the residential status for the assessment year 2024-25, assuming his Indian income is \leq 15 Lakhs.

Question 6

Mr. Ramchandra HUF is partly controlled from India. Mr. Ramchandra, Karta of HUF, is visiting India for 50 days every year since 2019-20. Prior to that he visited India for 200 days every year.

Determine residential status of Mr. Ramchandra HUF for A.Y. 2024-25.

Question 7

Following are the particulars of taxable income of Mr R for the previous year ended 31.03.2024.

1. Royalty received from Government of India ₹ 24,000
2. Income from business earned in Afghanistan ₹ 25,000 of which 15,000 were received in India (Controlled from Afghanistan).
3. Interest received from G a non- resident against a loan provided to him to run a business in India 5000.
4. Royalty Received in India from S a resident for technical services provided to run a business outside India 20,000.
5. Income from business in Jaipur 40,000. This business is controlled from France 20,000 were remitted to France.
6. Profit on sale of shares in Indian Company received in Germany ₹ 15,000
7. Dividend
 - From Japanese Company received in Japan – 10,000
 - From RP Ltd an Indian Company – 5,000
8. Income from property in London deposited in a bank in London, later on remitted to India 1,00,000.
9. Income from Business in Canada Controlled from Mumbai 50,000 of which 27,000 is received in India.

Find out Total Income of Mr R, if he is –

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

HOMEWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Mr. Kohli, a citizen of India, is an export manager of Arjun Overseas Limited, an Indian Company, since 1.5.2019. He has been regularly going to USA for export promotion. He spent the following days in U.S.A. for the last five years:

Previous year ended	No. of days spent in USA
31.3.2020	317 days
31.3.2021	150 days
31.3.2022	271 days
31.3.2023	311 days
31.3.2024	294 days

Determine his residential status for assessment year 2024-25 assuming that prior to 1.5.2019 he had never travelled abroad.

Question 2

Mr. A is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2023. From the following details for the P.Y.2023-24, determine the residential status of Mr. A 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 and last seven previous years (preceding P.Y.2023-24) is 750 days:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. A	6th June, 2023
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. A	9th December 2023

Question 3

Determine the residential status in the following cases for the assessment year 2024-25:

- (i) The control and management of a HUF is situated in India. The manager of the H.U.F. visited England with his wife from 14.8.2023 to 30.6.2024. Earlier to that he was always in India.

- (ii) A company, whose registered office is in America, has a place of its effective management in the previous year in India.
- (iii) In a partnership firm, there are three partners namely A, B and C. A and B reside in India while C lives in Germany. The firm is fully controlled by C. During the previous year, Mr. C stayed for 6 months in India.
- (iv) A V.I.P. Club is in India, whose director Mr. X belongs to China. The Club is controlled fully by Mr. X. In the previous year. Mr. X did not come for a single day to India.

Question 4

'A' earns the following income during the financial year 2023-24:

	Particulars	Amount (₹)
(a)	Interest paid by an Indian company but received in London	2,00,000
(b)	Pension from former employer in India, received in USA (after Std. Deduction)	8,000
(c)	Profits earned from business in Paris which is controlled in India, half of the profits being received in India	40,000
(d)	Income from agriculture in Bhutan and remitted to India	10,000
(e)	Income from property (computed) in England and received there	8,000
(f)	Past foreign untaxed income brought to India	20,000

Determine the total income of 'A' for the assessment year 2024-25 if he is

- (i) Resident and ordinarily resident, (ii) Not ordinarily resident, and (iii) Non-resident in India.

Question 5

Following are the incomes of R, a citizen of India, for the previous year 2023-24:

1.	Interest on Saving Bank Deposit in Corporation Bank, Delhi	12,000
2.	Income from agriculture in Africa invested in Russia	5,000
3.	Dividends received in USA from an English Company, out of which ₹ 2,000 were remitted to India	12,000
4.	Salary drawn for two months for working in Indian Embassy's Office in Australia and salary received there (After Standard Deduction)	48,000
5.	Income from house property (computed). (The building is situated in Iraq, out of which ₹ 20,000 deposited in a bank in Iraq and the balance remitted to India)	25,000
6.	Pension received in Belgium for services rendered in India with a limited company (After standard deduction)	10,000

You are required to compute his gross total income for the assessment year 2024-25 if he is (a) a resident and ordinarily resident, (b) not ordinarily resident, and (c) a non-resident.

Question 6

Mr. Kapoor earns the following incomes:

Sr.	Particulars	₹
1	Income (computed) from a HP in London, received in India	60,000
2	Profits from a Business in Japan, managed & received in Japan	900,000
3	Dividend from a Foreign Company, received in India	30,000
4	Dividend from an Indian Company, received in England	50,000
5	Profits from a Business in Kenya, controlled from India but received in England	300,000
6	Profits from a Business in Delhi, managed in France	700,000
7	Capital Gains on transfer of shares of Indian Companies, sold in USA, gains received in USA	200,000
8	Pension from a former employer in India, received in Vatican City	50,000
9	Profits from a business in Melbourne, deposited in a Bank in Melbourne	20,000
10	Profit on sale of an asset in India, but received in Canada	8,000
11	Past untaxed profits of a UK Business for P.Y. 2015-16, brought into India	90,000
12	Interest on Government Securities accrued in India, but received in Chile	80,000
13	Interest on USA Government Securities, received in India	20,000
14	Interest on USA Government Securities, received in Malaysia	100,000
15	Salary earned in Mumbai, but received in Ottawa	60,000
16	Income from a property (computed) in Hong Kong, received there	100,000

On the presumption that all the above incomes are computed incomes, determine the Gross Total Income of Mr. Kapoor, assuming that he is a ROR or RNOR or NR.

Question 7

Mr. Suhaan furnished the following particulars of his income

Sr.	Particulars	₹
(a)	Income earned from business in France which is controlled from Mumbai (₹ 65,000 is received in India)	90,000
(b)	Computed Pension for services rendered in India but received in France	14,000
(c)	Dividend received in France from Titanium Inc., a French company	25,000
(d)	Rent from property in France deposited in a bank in France and later on, remitted to India through approved banking channels	85,000
(e)	Dividend from Sunset Ltd., an Indian company received in France	98,000

Compute the Gross Total Income of Mr. Suhaan, if he is ROR, RNOR, NR.

Question 8

Mr. Shantaram, a foreign national, furnishes the following particulars

Profit on sale of plant at London - [1/2 is received in India]	46,000
Profit on sale of plant at Delhi - [1/2 is received in London]	52,000
Interest on U.K. Power Bonds - [entire amount received in London]	40,000
Interest on Bank Accounts in India	5,000
Dividend from British Company received in India	2,000
Interest received in London from a Company registered in India but mainly operating in U.K.	18,000
Profit from a business in Delhi managed from India	30,000
Income from a business in China controlled from India	10,000
Rent from a property in Nepal deposited by a tenant in a foreign branch of an Bank of India operating there	1,00,000
Computed salary earned and received in Hong Kong	20,000

Determine the Gross Total Income of Mr. Shantaram, if he is ROR, RNOR, NR.

Question 9

Mr. Sehwaq settled in Australia in the year 1991. He has earned following incomes. Compute his Gross Total Income.

Particulars	₹
Fees for technical services rendered in India, but received in Australia	75,000
Interest on Savings Bank Deposit in Bank of India	12,000
Interest on Australia Development Bonds(only 50% of interest received in India)	55,000
Dividend from Indian company received in Australia	28,000
Profit from a business in Nagpur, but managed directly from Australia	95,000
Short-term capital gain on sale of shares of an Indian company received in India	90,000
Agricultural income from a land situated in Punjab	55,000
Rent received in respect of house property at Bhopal	1,25,000

Question 10

Mr. Trilok, an Indian Citizen furnishes the following particulars of his income

Particulars		₹
1.	Interest on Nepal Development Bond - [1/3rd received in India]	21,000
2.	Income from Agriculture in Bangladesh	40,000
3.	Rent from Property in Japan received outside India	10,000
4.	Income earned from Business in London which is controlled from Delhi [₹ 15,000 received in India]	35,000
5.	Interest paid by an Indian Company but received outside India	9,000
6.	Past untaxed profit brought to India	33,000
7.	Profit from a Business in Pune & managed from outside India	50,000
8.	Profit on Sale Building in Mumbai but received in Sri Lanka	40,000
9.	Computed pension from an Indian employer in India received in London	30,000

Find out Gross Total Income for Mr. Trilok if he is a [i] ROR; [ii] RNOR; or [iii] NR in India.

Question 11

Mr. Harshal, an Indian citizen had following incomes:

Sr.	Particulars	₹
1.	Professional Fees received in India for three months	75,000
2.	Payment received in the United Kingdom for the services rendered in India	55,000
3.	Income from business, in Sri Lanka being controlled from India	50,000
4.	Income from agriculture in Japan	80,000
5.	Interest received Paris in respect of securities in a German company	25,000
6.	Amount brought into India out of the past untaxed profits earned in Germany	30,000
7.	Dividend on shares of foreign companies:	
	- received abroad	22,000
	- received in India	23,000
8.	Interest on bank accounts in UAE	15,000
9.	Profits from business in Spain which is controlled from India [50% received in India]	1,00,000
10.	Profits from Business in Mumbai, controlled and managed from USA	3,00,000
11.	Profit on sale of Building in India but received in Japan	2,40,000
12.	Interest on Fixed Deposit with the ICICI Bank Ltd.	60,000
13.	Computed salary earned and received in Bangladesh	40,000

Question 12

State with reasons whether the following transactions attract income tax in India in the hands of recipients:

- (1) Interest on Post Office Savings A/c amounting to ₹ 15,000 received by a resident assessee, Mr. Robin.
- (2) Legal Charges amounting to ₹ 5,00,000 paid in Mumbai to a lawyer of Canada who visited India to represent a case at the Bombay High Court.
- (3) Royalty paid by Mr. Satbir, a resident, to Mr. Ronald, a non-resident, in respect of a business carried on in France.
- (4) Salary paid by the Central Government to Ms. Monika, a citizen of India ₹ 11,00,000 (computed) for the services rendered in USA.

Question 13

Mr. Shaun, a Government employee serving in the Ministry of External Affairs, left India for the first time on 31-03-2021 due to his transfer to High Commission of Canada. He did not visit India any time during the P.Y. 2023-24. He has received the following income for the F.Y. 2023-24:

Particulars	₹
Salary	5,00,000
Foreign Allowance	4,00,000
Interest on fixed deposit from a bank in India	1,00,000
Income from agriculture in Pakistan	2,00,000
Income from house property (computed) in Pakistan	2,50,000

Compute his Gross Total Income.

Question 14

Mr. Rachit, an Indian citizen, left India on 08-08-2023 for the first time to work as an officer of a company in Germany. Determine the residential status of Rachit for the A.Y. 2024-25 and explain the conditions to be fulfilled for the same under the Income Tax Act, 1961.

Question 15

Mr. Bhandari, a Canadian citizen, comes to India for the first time during the P.Y. 2019-20. During the F.Y.s 2019-20, 2020-21, 2021-22, 2022-23 and 2023-24, he was in India for 55 days, 60 days, 90 days, 150 days and 70 days, respectively. Determine his residential status for the A.Y. 2024-25.

Question 16

Mr. Deepak, an Indian citizen, leaves India on 22-9-23 for the first time, to work as an officer of a company in France. Determine his residential status for the A.Y. 2024-25.

Question 17

The business of a HUF is transacted from USA and all the policy decisions are taken there. Mr. Sharad, the Karta of the HUF, who was born in Kolkata, visits India during the P.Y. 2023-24 after 15 years. He comes to India on 01-04-2023 and leaves for Australia on 01-12-2023. Determine the residential status of Mr. Sharad and the HUF for the A.Y. 2024-25.

Question 18

Mr. Kevin is a foreign citizen (not being a person of Indian origin). Since 1981, he visits India every year in the month of April for 100 days. Find out the residential status of Mr. Kevin for the A.Y. 2024-25.

Question 19

Mr. Kamless, an Indian citizen, left India for the first time as a member of the crew of an Indian ship on 15th November 2022. Thereafter he settles down abroad because of his employment and comes back on a visit to India on 10th December, 2023 and stays in India for 190 days. Determine his residential status for A.Y. 2024-25.

Question 20

Mr. Chandu, an individual, is Resident but Not Ordinarily Resident in India for the P.Y. 2023-24). During the P.Y. 2023-24, the affairs of Chandu (HUF), a HUF, whose karta is Mr. Chandu since 1987, are partly managed from Nagpur and partly from Kathmandu (Nepal). Determine the residential status of Chandu (HUF).

HOMEWORK PROBLEMS SOLUTIONS

Answer 1

Total stay in India

2019 – 20	49 days
2020 – 21	215 days
2021 – 22	94 days
2022 – 2023	54 days
2023 – 2024	72 days

During previous year 2023-24 his stay in India is 71 days and in the four preceding years $49 + 215 + 94 + 54 = 412$ days.

Resident in India [exception one of (b) basic condition is NOT applicable as he has not gone for employment abroad but has gone out of India during the course of his Indian employment]

2022 - 23	54 days (Non-Resident)
2021 -22	94 days but more than 365 days in the 4 preceding previous year. Hence, resident
2020-21	215 days – resident
2019-20	49 days non-resident
Prior to 2019-20	resident

He satisfies the first condition of being resident in at least 2 out of 10 previous year prior to relevant previous year and the 2nd condition of being in India for 730 days or more in the 7 preceding previous years. He is “resident and ordinarily resident in India”.

Answer 2

In this case, the voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Chennai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1). Therefore, the period beginning from 6th June, 2023 and ending on 9th December, 2023, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. A, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days $[25 + 31 + 31 + 30 + 31 + 30 + 9]$ have to be excluded from the period of his stay in India. Consequently, Mr. A’s period of stay in India during the P.Y.2023-24 would be 179 days

[i.e., 366 days – 187 days]. Since his period of stay in India during the P.Y.2023-24 is less than 182 days, he is a non-resident for A.Y.2024-25

Note - Since the residential status of Mr. A is “non-resident” for A.Y.2024-25 consequent to his number of days of stay in P.Y.2023-24 being less than 182 days, his period of stay in the earlier previous years become irrelevant.

Answer 3

Residential Status for the assessment year 2024-25.

1. HUF is a resident in India, as it is partly controlled from India. Further, the karta of the HUF satisfies both the conditions of category B. He was resident in at least 2 out of 10 previous year prior to relevant previous year and was in India for 730 days or more in the 7 preceding previous years. Hence, the HUF is “resident and ordinarily resident in India”.
2. Company is resident in India as its place of effective management in the previous year is in India.
3. A partnership firm is said to be resident in India if control and management of its affairs is partly situated in India.
4. VIP Club is non-resident - no part of the control and management was in India.

Answer 4

	Particulars	ROR	RNOR	NR
		(₹)	(₹)	(₹)
(a)	Interest paid by an Indian company but received in London	2,00,000	2,00,000	2,00,000
(b)	Pension from former employer in India, received in USA (after Std. Deduction)	8,000	8,000	8,000
(c)	Profits earned from business in Paris which is controlled in India, half of the profits being received in India	40,000	40,000	20,000
(d)	Income from agriculture in Bhutan and remitted to India	10,000	–	–
(e)	Income from property (computed) in England and received there	8,000	Nil	Nil
(f)	Past foreign untaxed income brought to India Note : Since such income does not relate to current year, thus not taxable in all 3 cases.	Nil	Nil	Nil
		2,66,000	2,48,000	2,28,000

Answer 5

Computation of Gross Total Income of RR

Particulars		Resident and ordinarily	Not ordinarily resident	Non-resident resident
		(₹)	(₹)	(₹)
1.	Interest on Savings Bank Deposit	12,000	12,000	12,000
2.	Income from Agriculture in Africa	5,000	–	–
3.	Dividends received in USA	12,000	–	–
4.	Salary drawn for working in Indian Embassy in Australia	48,000	48,000	48,000
5.	Income from house property in Iraq	25,000	–	–
6.	Pension received in Belgium for services rendered in India	10,000	10,000	10,000
	Gross Total Income	1,12,000	70,000	70,000

Answer 6

Name of the Assessee: Mr. Kapoor

Legal Status: Individual

PAN: _____

P.Y.: _____

A.Y.: _____

Determination of Gross Total Income:

Sr.	Particulars	Note	ROR	RNOR	NR
1	Income from a HP in London, received in India		60,000	60,000	60,000
2	Profits from a Business in Japan, managed & received in Japan		9,00,000	-	-
3	Dividend from a Foreign Company, received in India		30,000	30,000	30,000
4	Dividend from an Indian Company, received in England		50,000	50,000	50,000
5	Profits from a Business in Kenya, controlled from India but received in England		3,00,000	3,00,000	-
6	Profits from a Business in Delhi, managed in France		7,00,000	7,00,000	7,00,000

7	Capital Gains on transfer of shares of Indian Companies, sold in USA, gains received in USA		2,00,000	2,00,000	2,00,000
8	Pension from a former employer in India, received in Vatican City		50,000	50,000	50,000
9	Profits from a business in Melbourne, deposited in a Bank in Melbourne		20,000	-	-
10	Profit on sale of an asset in India, but received in Canada		8,000	8,000	8,000
11	Past untaxed profits of a UK Business for 2015-16, brought into India	(1)	-	-	-
12	Interest on Government Securities accrued in India, but received in Chile		80,000	80,000	80,000
13	Interest on USA Government Securities, received in India		20,000	20,000	20,000
14	Interest on USA Government Securities, received in Malaysia		1,00,000	-	-
15	Salary earned in Mumbai, but received in Ottawa		60,000	60,000	60,000
16	Income from a property in Hong Kong, received there		1,00,000	-	-
			26,78,000	15,58,000	12,58,000

Note:

- (1) As per Section 5, any past untaxed profits/income shall not be considered to be the income of the current year. Therefore, the amount of past untaxed profits of the UK Business for the P.Y. 2015-16, brought to tax in India has been ignored.

Answer 7

Name of the Assessee: Mr. Suhaan

Legal Status: Individual

PAN: _____

P.Y.: _____

A.Y.: _____

Determination of Gross Total Income:

Sr.	Particulars	ROR	RNOR	NR
(a)	Income earned from business in France which is controlled from Mumbai, out of which ₹ 65,000 is received in India	90,000	90,000	65,000
(b)	Pension for services rendered in India but received in France	14,000	14,000	14,000
(c)	Dividend received in France from Titanium Inc., a French company	25,000	-	-
(d)	Rent from property in France deposited in a bank in France	59,500	-	-
(e)	Dividend from Sunset Ltd., an Indian Company	98,000	98,000	98,000
Gross Total Income		2,86,500	2,02,000	1,77,000

Note:

(1) As per section 5(1), global income is taxable in case of an ordinary resident. However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax in India:

- (i) Income received or deemed to be received in India; and
- (ii) Income accruing or arising or deemed to accrue or arise in India.

Further, the income which accrues or arise outside India would be chargeable to tax in case of resident but not ordinarily resident in India, only if such income is derived from a business controlled in India. Accordingly, the entire income earned from business in France which is controlled from Mumbai would be chargeable to tax in the hands of Mr. Suhaan if he is a resident in India or resident but not ordinarily resident. However, if he is non-resident then only that part of income which is received in India would be taxable in his hands.

(2) Pension for services rendered in India but received in France would be taxable in all cases, since it has accrued or arisen in India.

(3) Dividend received in France from a French company would be taxable in the hands

of Mr. Suhaan, only if he is resident and ordinarily resident in India. If he is a resident but not ordinarily resident or a non-resident, the same would not be taxable in his hands in India since it has neither accrued nor arisen in India nor is it received in India.

- (4) Likewise, rental income from property in France would also be taxable only if he is resident in India. It has been assumed that the rental income is the gross annual value of the property. Therefore, deduction @ 30% u/s 24(a), has been provided and the net income so computed is taken into account for determining the gross total income of a resident and ordinarily resident.

Rent received (assumed as gross annual value)	₹ 85,000
Less: Deduction u/s 24(a) (30% of ₹ 85,000)	(₹ 25,500)
Income from House Property	₹ 59,500

Answer 8

Name of the Assessee: Mr. Shantaram

Legal Status: Individual

PAN: _____

P.Y.: _____

A.Y.: _____

Determination of Gross Total Income:

Particulars	ROR	RNOR	NR
Profit on sale of plant at London			
[i] one-half is taxable on receipt basis			
[ii] one-half is taxable in the case of ROR	23,000	23,000	23,000
	23,000	-	-
Profit on sale of plant at Delhi			
[Income accrued in India then where it is received is immaterial]	52,000	52,000	52,000
Interest on U.K. Power Bonds	40,000	-	-
[Income accruing / arising outside India]			
Interest on Bank Accounts in India	5,000	5,000	5,000
[Income accrued and received In India]			
Dividend from British Co. received in India	2,000	2,000	2,000
[Income received in India]			
Interest received in London from Indian Co.	18,000	18,000	18,000
[Income accrued in India]			

Profit from a business in Delhi managed from India [Income accrued in India]	30,000	30,000	30,000
Income from business in China controlled from India	10,000	10,000	-
[Income accrued & received outside India but from a business controlled from India]			
Rental income from a property in Nepal received outside India [Income accrued & received outside India] - (Note)	70,000	-	-
Salary earned & received in Hong Kong [Income accrued & received outside India]	20,000	-	-
Gross Total Income	2,93,000	1,40,000	1,30,000

Note: Income from house property in Nepal:

Rent received (assumed to be gross annual value)	1,00,000
Less: Deduction u/s 24(a) - (30% of Rs. 1,00,000)	(30,000)
Income from House Property	70,000

The net income from house property in Nepal would be taxable in the hands of Mr. Shantaram only when he is ROR. Further, the tenant has deposited the rent outside India in the bank account of Mr. Shantaram therefore, the income from this house property is considered to be received by Mr. Shantaram outside India.

Answer 9

Mr. Sehwaq, is a non-resident as he is settled in Australia since 1991.

Accordingly, his total income would be computed as follows:

Name of the Assessee: Mr. Sehwaq

Legal Status: Individual - Non Resident

PAN: _____

P.Y.: _____

A.Y.: _____

Determination of Gross Total Income:

Particulars	₹
Fees for technical services rendered in India, but received in Australia (Note 1)	75,000
Interest on Savings Bank Deposit in Bank of India (Note 1)	12,000
Interest on Australia Development Bonds (Note 1)	27,500
Dividend from Indian Company received in Australia	28,000
Profit from business in Nagpur but managed directly from Australia (Note 1)	95,000
Short-term capital gain on sale of shares of an Indian company received in India (Note 1)	90,000
Agricultural income from a land in Punjab (Note 2)	-
Income from house property at Bhopal (Note 3)	87,500
Gross Total Income	4,15,000

Note:

- (1) In case of a resident, his global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:
- Income received or deemed to be received in India; and
 - Income which accrues or arises or is deemed to accrue or arise in India.
- Therefore, fees for technical services rendered in India would be taxable in hands of Mr. Sehwaq, even though he is a non-resident. The income referred to in Sr. No. 2, 5 and 6 are also taxable in his hands, since these incomes accrue or arise or deemed to accrue or arise in India. Interest on Australia Development Bonds to the extent of 50% would be taxable in India, since this portion is received in India.
- (2) Agricultural income from a land situated in India is exempt u/s 10(1).
- (3) Income from house property

Rent received (assumed to be gross annual value)	1,25,000
Less: Deduction u/s 24(a) - (30% of Rs. 85,000)	(37,500)
Income from House Property	87,500

The net income from house property in India would be taxable in his hands since the accrual and receipt of the same are in India

Answer 10

Name of the Assessee: Mr. Trilok

Legal Status: Individual

PAN: _____

P.Y.: _____

A.Y.: _____

Determination of Gross Total Income:

Sr.	Particulars	ROR	NOR	NR
1.	Interest on Nepal Development Bonds 1/3rd is taxable on receipt basis 2/3rd is taxable in the case of ROR on accrual basis	7,000 14,000	7,000 -	7,000 -
2.	Income from Agriculture in Bangladesh [Income accrued & received outside India]	40,000	-	-
3.	Income from property in Japan received outside India [Income accruing & arising outside India] - (Note)	7,000	-	-
4.	Income earned from business in London, controlled from Delhi [i] ₹ 15,000 is taxable on receipt basis [ii] Balance is not taxable in the case of NR	15,000 20,000	15,000 20,000	15,000 -
5.	Interest paid by an India Company received outside India [Income deemed to accrue or arise in India]	9,000	9,000	9,000
6.	Past untaxed profit brought to India [Does not represent current year's income, hence not taxable]	-	-	-
7.	Profit from a business in Pune & managed from outside India [Income Accrued in India]	50,000	50,000	50,000
8.	Profit on sale of building in Mumbai but received in Sri Lanka [Income deemed to accrue or arise in India]	40,000	40,000	40,000
9.	Pension from an Indian former employer received in London [Income deemed to accrue or arise in India]	30,000	30,000	30,000
	Gross Total Income	2,32,000	1,71,000	1,51,000

Note:

Income from house property in Japan:

Rent received (assumed to be gross annual value)	10,000
Less: Deduction u/s 24(a) - (30% of ₹ 10,000)	(3,000)
Income from House Property	7,000

The net income from house property in Japan would be taxable in the hands of Mr. Trilok only when he is Ordinarily Resident (ROR).

Answer 11

Name of the Assessee: Mr. Harshal

Legal Status: Individual

PAN: _____

P.Y.: _____

A.Y.: _____

Determination of Gross Total Income:

Sr.	Particulars	ROR	RNOR	NR
1.	Professional Fees received in India for three months [Income received in India]	75,000	75,000	75,000
2.	Payment received in the United Kingdom for the services rendered in India [Income accrued in India]	55,000	55,000	55,000
3.	Income from business, in Sri Lanka being controlled from India [Income accrued & received outside India from a business outside India but controlled from India]	50,000	50,000	-
4.	Income from agriculture in Japan [Income accrued & received outside India]	80,000	-	-
5.	Interest received Paris in respect of securities in a German company [Income accrued & received outside India]	25,000	-	-
6.	Amount brought into India out of the past untaxed profits earned in Germany [To be ignored]	-	-	-

7.	Dividend on shares of foreign companies: received abroad [Income accrued & received outside India]	22,000	-	-
	received in India [Income accrued outside India but received in India]	23,000	23,000	23,000
8.	Interest on bank accounts in UAE [Income accrued & received outside India]	15,000	-	-
9.	Profits from business in Spain which is controlled from India 50% received in India Balance 50% received outside India	50,000 50,000	50,000 50,000	50,000 -
10	Profits from Business in Mumbai, controlled and managed from USA [Income accrued in India]	3,00,000	3,00,000	3,00,000
11	Profit on sale of Building in India but received in Japan [Income accrued in India]	2,40,000	2,40,000	2,40,000
12	Interest on Fixed Deposit with the ICICI Bank Ltd. [Income accrued in India]	60,000	60,000	60,000
13	Salary earned and received in Bangladesh [Income accrued & received outside India]	40,000	-	-
	Gross Total Income	10,85,000	9,03,000	8,03,000

Answer 12

Sr	Taxable or not?	Taxable Amount	Reason
(1)	Partly Taxable	1,500	The interest on Post Office Savings Deposit Account, would be exempt u/s 10(15) only to the extent of ₹ 3,500 in case of an individual account. Hence, ₹ 11,500 shall be taxable under the head 'Other Sources' and will form part of Gross Total Income. Note: ₹ 10,000, however, would be allowed as deduction u/s 80TTA from the Gross Total Income.

(2)	Taxable	5,00,000	In case of a non-resident, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India to a non-resident lawyer of Canada, who visited India to represent a case at the Bombay High Court would be taxable in India.
(3)	Not Taxable	NIL	Royalty paid by a resident to a non-resident in respect of a business carried on in France would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in section 9(1)(vi)(b).
(4)	Taxable	11,00,000	As per section 9(1)(iii), Salary payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by the Central Government to Ms. Monika for services rendered in USA shall be deemed to accrue or arise in India, since she is a citizen of India.

Answer 13

As per the provisions of section 6(1), Mr. Shaun is a non-resident for the A.Y. 2024-25, since he was not present in India at any time.

As per section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:

- (i) Income received or deemed to be received in India; and
- (ii) Income accruing or arising or deemed to accrue or arise in India.

In view of the above provisions, income from agriculture in Pakistan and income from house property in Pakistan would not be chargeable to tax in the hands of Mr. Shaun, assuming that the same were received in Pakistan.

Income from 'Salary' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Hence, such income is taxable in the hands of Mr. Shaun, even though he is a non-resident. It has

been assumed that Mr. Shaun is a citizen of India. However, allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt u/s 10(7). Hence, foreign allowance of ₹ 4,00,000 is exempt u/s 10(7).

Hence, Gross Total Income of Mr. Shaun for the A.Y. 2024-25:

Particulars	₹
Salary [5,00,000(-) Ded. u/s 16(ia) of 50,000 S.D.]	4,50,000
Interest on fixed deposit from a bank in India (Income from 'Other Sources')	1,00,000
Gross Total Income	5,50,000

Answer 14

As per the provisions of 6(1), an individual is said to be a resident in India in any P.Y. if he satisfies any one of the following conditions:

(A) He has been in India during the P.Y. for a total period of 182 days or more;
or

(B) He has been in India for at least 60 days in the P.Y. and has been in India for a total period of 365 days or more during the 4 years immediately preceding to current P.Y.

In the case of Indian citizens leaving India for employment, the period of stay during the P.Y. must be 182 days instead of 60 days given in condition 'B' above. During the P.Y. 2023- 24, Mr. Rachit, an Indian citizen, was in India for 130 days only (i.e. 30+31+30+31+8). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days, he is a Non- Resident.

Answer 15

During the P.Y. 2023 - 24, Mr. Bhandari was in India for 70 days and during the 4 years preceding the P.Y. 2023 - 24, he was in India for 355 days (i.e. 55+ 60+90+150 days).

He does not satisfy the basic conditions as prescribed u/s 6(1). Therefore, he is a Non- Resident.

Answer 16

During the P.Y. 2023 - 24, Mr. D, an Indian citizen, was in India for 175 days (i.e. 30+31+30+31+31+22 days). He does not satisfy the minimum criteria of 182 days. Also, since he is an Indian citizen leaving India for the purposes of employment, the second condition u/s 6(1) is not applicable to him.

Therefore, Mr. Deepak is a non-resident.

Answer 17

(a) During the P.Y. 2023 - 24, Mr. Sharad has stayed in India for 245 days (i.e. 30 + 31 + 30 + 31 + 31 + 30 + 31 + 30 + 1 days). Therefore, he is a resident. However, since he has come to India after 15 years, he does not satisfy any of the conditions for being ordinarily resident.

Therefore, the residential status of Mr. Sharad for the P.Y. 2023-24 is resident but not ordinarily resident.

(b) Since the business of the HUF is transacted from Australia and nothing is mentioned regarding its control and management, it is assumed that the control and management is also wholly outside India. Therefore, the HUF is a non-resident for the P.Y. 2023-24.

Answer 18

Mr. Kevin is a Resident but Not Ordinarily Resident (RNOR).

Hint: Stay in India for the P.Y. 2023-24: 100 days

Stay during Past 4 P.Y.s: 400 days (100days x 4 years) Resident in all the 10 P.Y.s out of last 10 P.Y.s

Stay during Past 7 P.Y.s: 700 days (100days x 7 years)

Answer 19

Mr. Kamless is a Non - Resident (NR).

Hint: Stay in India for the P.Y. 2023-24: 113 days (Out of 190 days; 77 days stay in India is not in the current P.Y., it is during the next P.Y., hence; not considered)

Mr. Kamless is an Indian Citizen who comes to India during the current P.Y. for the purpose of visit; hence he is covered by the exceptions to the basic conditions u/s 6(1) and basic condition (b) is not applicable in his case and he is not able to satisfy the one & only (a) basic condition, since stay is <182 days in P.Y. 23-24.

Answer 20

Chandu (HUF) is a Resident but Not Ordinarily Resident (RNOR).

Hint: Since, Control & Management of the affairs of Chandu (HUF) is partly situated in India & partly outside India during the P.Y. 2023-24; hence Chandu (HUF) is a Resident.

Further, Mr. Chandu, the karta of Chandu (HUF) himself is a RNOR during the P.Y. 2023-24 which means he does not satisfy both the additional conditions.

INCOME UNDER THE HEAD SALARIES

Introduction

The provisions pertaining to income under the head 'Salaries' are contained under sections 15, 16 and 17.

Section 15 Basis of Charge under the head "Salaries"	Section 16 Deductions available from income under the head "Salaries"	Section 17 Meaning of Salary, Perquisite and Profits in lieu of Salary
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Basis of Charge - [Section 15]

As per the provisions of section 15, income under the head 'Salaries' consists of:

- any **salary due** from an employer (or a former employer) to an assessee in the previous year, **whether actually paid or not**;
- any salary paid or allowed to him in the previous year by or on behalf of an employer (or a former employer), **though not due or before it became due**; and any **arrears of salary paid or allowed** to him in the previous year by or on behalf of an employer **if not charged to income-tax for any earlier previous year**.

Note:

- In simple words, any '**salary**' received or receivable **by an employee from his employer (or former employer)** for services rendered, shall be charged to tax under the head 'Salaries' on **due or receipt whichever is earlier basis**.

Meaning of the term 'salary' for the purpose of Income Tax Act, 1961 is much wider than what is normally understood as the term '**salary**' is **expressly defined u/s 17(1) to include:**

- wages;
- annuity or pension;
- gratuity;
- fees, commission, perquisites and profits in lieu of salary;

- (v) advance salary;
- (vi) leave encashment;
- (vii) the portion of the annual accretion in any previous year to the balance at the credit of an employee participating in a recognised provident fund (RPF) to the extent it is taxable and transferred balance in recognized provident fund to the extent it is taxable; and
- (viii) Any contribution made by the Central Government or any other employer to the A/c of the employee participating in Notified Pension Scheme (NPS) as referred u/s 80CCD.
- (ix) Contribution made by Central Government in P.Y. to "AGNIVEER CORPUS FUND" (It is also entitled for deduction under chapter VI A from G.T.I. u/s 80CCH).

Hence, in order to bring any income under the purview of this head it is not necessary that such income shall be named as 'salary'. What is important is that the income is flowing to the payee due to employer-**employee relationship (i.e. master-servant relationship)**.

Employer-Employee Relationship:

The relationship of employer & employee is established through a **contract 'of' service** i.e. control & supervision over the activities of the payee (employee) vests with the payer (employer).

Payer has a complete control over the payee as regards to what to do, when to do and how to do and in such case, the payee is bound to follow such directions given by the payer.

On the other hand, if the payee derives income from the payer through a **contract 'for' service**, then, such income cannot be treated as salary, however it is either taxed under the head 'PGBP' or 'Other Sources' (as the case may be).

Contract 'for' service means there is no control or supervision by the payer over the activities undertaken or performed by the payee.

In such case, the payee can only be told what is to be done. There can be no specific instructions about how it is to be done. The payee shall complete the work granted by using his own knowledge and skills.

Few examples where there is a contract for service are, doctor & patient; chartered accountant & client; lawyer & client etc.

Further, not only the amount which is received but the amount which is receivable by the employee from his employer is charged to tax under this head as it is taxed on **'due or received whichever is earlier' basis**.

No double taxation - i.e. to say where any salary, paid in advance, is assessed in the year of payment, it cannot be subsequently brought to tax in the year in which it becomes due.

If the salary paid in arrears has already been assessed on due basis, the same cannot be taxed again when it is paid.

For example:

If Mr. Gopal draws his salary in advance for the month of April, 2024 in the month of March, 2024 itself, the same becomes chargeable on receipt basis and is to be assessed as income of the P.Y. 2023-24 i.e. A.Y. 2024-25. However, the salary for the P.Y. 2024-25 i.e. A.Y. 2025-26 shall not include the salary of April, 2024.

However, if the salary due for March, 2024 is received by Mr. Gopal later in the month of April, 2024, then it is still chargeable as income of the P.Y. 2023-24 i.e. A.Y. 2024-25 on due basis. In such case, obviously the salary for the P.Y. 2024-25 i.e. A.Y. 2025-26 shall not include the salary of March, 2024.

Also, the employee may get the income from his employer **in cash (monetary terms) or in kind (non-monetary benefits)**.

Basic Salary, Bonus, Commission, Allowances etc. are few examples of monetary payments made by the employer to the employee.

Housing Accommodation, Medical Facility, Domestic Servants etc. are few of the examples of non-monetary benefits given by the employer to his employees.

- (2) **Employer may be** an Individual, a HUF, a Partnership Firm, a Company, an AOP/BOI, any Corporation, Central Government or any State Government, any Public Body or a Local Authority.

Further, the employer **may be in India or outside India**.

Employee would always be an Individual who may be **a full-time or a part-time** employee.

- (3) As per the provisions of **section 9(1)(ii)**, salary earned in India (i.e. salary earned for rendering services in India) is deemed to accrue or arise in India even if it is paid outside India or it is paid or payable after the contract of employment in India comes to an end.

If an employee is paid pension abroad in respect of services rendered in India, the same will be deemed to accrue in India. Similarly, leave salary paid abroad in respect of leave earned in India is deemed to accrue or arise in India.

Further, section 9(1)(iii) provides that salary payable by the Government to a citizen of India for services rendered outside India shall be deemed to accrue or arise in India.

However, any allowance or perquisites paid or allowed outside India by the Government to a citizen of India for rendering services outside India shall be fully exempt from tax u/s 10(7).

(4) Foregoing of salary:

Once the salary accrues to an employee, the subsequent waiver by such employee does not absolve him from liability to income-tax. Such waiver is only an application and hence, chargeable to tax.

For example:

Mr. Anil, an employee instructs his employer that he is not interested in receiving the salary for May, 2023 and the same might be donated to a charitable institution.

In this case, Mr. Anil cannot claim that, he cannot be charged in respect of the salary for May, 2023. It is only due to his instruction that the donation was made to a charitable institution by his employer. It is only an application of income.

Hence, the salary for the month of May, 2023 shall be taxable in the hands of Mr. Anil. He is however, entitled to claim a deduction u/s 80G for the amount donated to the charitable institution. (Discussed in detail in 'Chapter 10' of this book).

(5) Surrender of salary:

Where an employee surrenders his salary to the Central Government u/s 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961, the salary so surrendered would be exempt while computing his taxable income.

(6) Salary paid tax-free:

This, in other words, 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.

Statement showing Computation of Income under the head 'Salaries'

Particulars	(₹)
Basic Salary	xx
Arrears of Salary	xx
Advance Salary	xx
Bonus/Ex-Gratia	xx
Fees/Commission	xx
Allowances	xx
Perquisites	xx
Retirement/Superannuation Benefits (Gratuity, Pension, Leave Salary etc.)	xx
Other Payments (Retrenchment Compensation, VRS Compensation etc.)	xx
GROSS TAXABLE SALARY	XX

Less: Deductions u/s: 16(ia) –	
Standard Deduction	(xx)
16(ii) - Entertainment Allowance	(xx)
16(iii) - Professional Tax Paid	(xx)
NET TAXABLE SALARY (Income under the head 'Salaries')	XX

Basic Salary

It is paid to an employee for his basic qualities such as educational qualification, work experience, expertise in a particular field, nature of the job undertaken etc.

It is the purest form of salary given by the employer to the employee for the services provided by the employee.

Gross Basic	XX	This amount is taxable head 'Salaries'
Less: Deductions made by the employer out of the above salary	(XX)	For example: PF Contribution, LIC Premium, Loan Installment, Professional Tax, TDS, etc.
Net Basic	XX	This is the amount which the employee gets in his hands i.e. 'Take Home Pay'.

Arrears of Salary

If taxed earlier on due basis



Not taxed again on receipt basis
(i.e. to be ignored)

In any other case






Taxable as income under the head
'Salaries' in the P.Y. in which it is received

Note:-

Where the question does not specify anything regarding the fact that whether arrears of salary received during the current year were taxed earlier on due basis or not, the student in such case should assume that such arrears wouldn't have suffered tax in the earlier years on due basis and accordingly the same shall be taxed on receipt basis. A suitable note regarding such assumption shall be given in the solution by the student.

Advance Salary & Advance against Salary

<p>Advance Salary: </p> <p>Advance Salary means that employee has received salary well in advance before it has actually been accrued or became due.</p>	<p>Always taxable on receipt basis. (Because, salary is taxable on due or receipt whichever is earlier basis).</p> <p>Note: Advance salary which is taxed on receipt basis, shall not be taxed again when it actually becomes due.</p>
<p>Advance against Salary: </p> <p>Advance against salary means that the employee has taken a loan against his future salary. Such loan is adjusted/deducted out of the future salary payable to such employee. In this case, full amount of salary (i.e. salary before adjusting such loan) shall be taxable in the hands of such employee because the adjustment / deduction of loan from the salary of such employee is considered to be application of income.</p>	<p>Not Taxable (Because, such advance is not an income).</p> <p>The same needs to be ignored.</p>
<p>Any Other Advance: </p> <p>It means that the employee has taken a loan from his employer. No adjustment from the future salary is done in this case. However, this loan is repaid by the employee as and when he is in the capacity to repay such loan.</p>	<p>Not Taxable (Because, such advance is not an income).</p> <p>The same needs to be ignored.</p>

Relief u/s 89

Where an assessee is in receipt of a sum in the nature of arrears of salary or advance salary in the current year and because of which his tax liability of the current year is assessed at a rate higher on receipt basis compared to due basis, the following is the relief:

Steps under Rule 21A (2):

1. Total tax of current year (including arrears/advance)
2. Total tax of current year (excluding arrears/advance)
3. Difference of tax at STEP 1 - STEP 2
4. Total tax of earlier (arrears) year/future (advance) year
(Including arrears /advance)
5. Total tax of earlier (arrears) year/future (advance) year
(Excluding arrears/advance)
6. Difference of tax at STEP 4 - STEP 5
7. If difference of tax at STEP 3 is > difference of tax at STEP 6 then and only then there is relief u/s 89 else no relief since assessee is in an advantageous position on taxability on receipt basis.

Salary under the Grading System

The concept of salary under the grading system can be better understood by examples as given below:

Example 1:

If Mr. Ramanujan joins the service on 01-06-2023. He is placed in the grade of ₹ 12,200-300-17,400-500-19,400. This means that, he will get a basic salary of ₹ 12,200 p.m. w.e.f. from 01-06-2023. He will get annual increment of ₹ 300 w.e.f. 01-06-2024 and onwards till his salary reaches ₹ 17,400 p.m.. Thereafter, he will get an annual increment of ₹ 500 till his salary reaches ₹ 19,400 p.m.. No further increment will be given thereafter till he is placed in the higher grade.

Example 2:

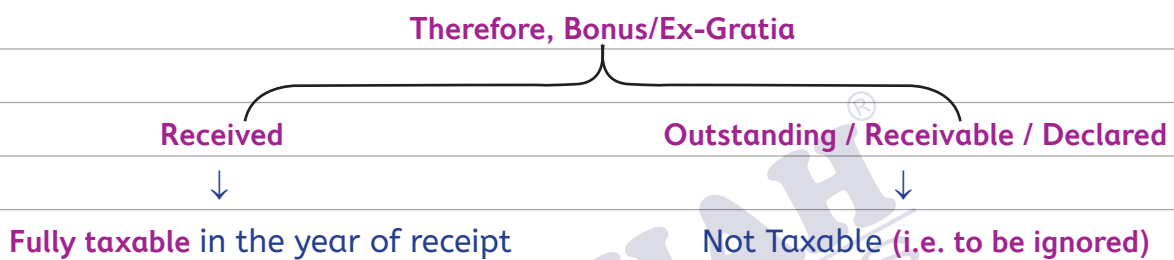
Further, in certain cases, it may happen that he may join the service in a particular grade but his salary is not fixed at the minimum amount of that grade but at any other amount in that grade.

Say, Mr. Srinath joins the service on 01-06-2023 in the grade of ₹ 12,000-300-15,000-500- 18,000, but his salary from the date of joining the service is fixed at ₹ 14,400 p.m., this means that he will get a basic salary of ₹ 14,400 p.m. from the date of joining & his

annual increment for the next two years from the date of joining shall be ₹ 300 (i.e. till he reaches ₹ 15,000p.m.). Thereafter the annual increment shall be ₹ 500.

Salary Due or Received in Foreign Currency

If the salary is earned in foreign currency, it will be converted into rupees (INR) and for the purpose of such conversion, the rate of exchange to be considered shall be the telegraphic transfer buying rate (T.T.B.R.) of such foreign currency as on the last day of the month immediately preceding the month in which such salary is due or is paid in advance or in arrears.



Commission/Fees

Any extra payment made to an employee for some extra work done by him for his employer is known as commission/fees.

Commission received or receivable by an employee can be



Allowances

Any fixed quantity of money or any other substance given regularly by an employer to his employee in addition to his basic salary:

- to meet some particular requirement related to the employment (i.e. to meet any expense which is to be incurred in the course of doing his official duties), or
- to meet employee's personal expenses, or
- as a compensation for unusual or extra ordinary conditions of the employment.

Types of Allowances		
Fully Taxable Allowances	Partly Taxable Allowances	Fully Exempt Allowances (Note 6)
(1) Dearness Allowance (Note 1) (2) Entertainment Allowance (Note 2) (3) Medical Allowance (4) City Compensatory Allowance (5) Servant Allowance (6) Tiffin/Lunch Allowance (7) Overtime Allowance (8) Family Allowance (9) Project Allowance (10) Any Other Cash Allowance	(1) House Rent Allowance (HRA) (Note 3) (2) Special Allowances which are exempt: (a) on the basis of amount spent for official purpose (Note 4) (b) to the extent of limits prescribed under the Income Tax Rules, 1962 (Note 5)	(1) Allowances to High Court Judges (2) Allowance paid by the United Nations Organization (3) Compensatory Allowance received by judges (4) Sumptuary allowance granted to High Court or Supreme Court Judges (5) Allowance granted to Government employees outside India
<p>Note: No exemption shall be available from these allowances i.e. these allowances are fully taxable. Further, any expenditure incurred out of such allowances shall also be ignored.</p>		

Note:

(1) Dearness Allowance (D.A.):

Along with the basic salary; employees are normally given an additional amount which is called Dearness Allowance.

This is given to an employee to compensate him for the increased cost of living i.e. inflation. It is linked with the Consumer Price Index (CPI), and is paid to employee on the basis of certain percentage of his basic salary and is always fully taxable just like the basic salary.

Dearness Allowance

provided in terms of employment

i.e. D.A. forming part of salary while calculating retirement / other benefits



Fully taxable under the head 'Salaries'

not provided in terms of employment

i.e. D.A. not forming part of salary while calculating retirement/ other benefits



Fully taxable under the head 'Salaries'

(2) Entertainment Allowance (E.A.):

It is given to an employee to meet the expenditure on entertaining guests of the employer or to meet expenses of the hospitality of business customers/clients.

For Entertainment Allowance, no exemption is given under the Income Tax Act, 1961 instead, it is fully taxable and forms part of the gross taxable salary.

However, deduction u/s 16(ii) is given from the gross taxable salary in the case of government employees only.

Entertainment Allowance received or receivable by a

Government Employee

Fully taxable

Deduction u/s 16(ii) shall be least of the following:

- (a) 1/5th of Basic Salary
- (b) Actual Amount Received
- (c) Maximum ₹ 5,000

Non-Government Employee

Fully taxable

No deduction u/s 16(ii)

Note:

- (a) Amount actually expended towards the entertainment out of the entertainment allowance is not taken into consideration i.e. it is to be ignored while calculating the amount of deduction u/s 16(ii).
- (b) Deduction u/s 16(ii) is permissible even if the amount received as entertainment allowance is not proved to have been spent.

(3) House Rent Allowance (HRA):

This allowance is given by the employer to his employee to meet the rental expenses of his residential accommodation.

HRA received or receivable by the employee is an income for the employee chargeable to tax under the head 'Salaries'.

However, the employee can claim **exemption u/s 10(13A) to the extent of least of the following:**

- (a) HRA actually received
- (b) 50% of **Salary**** (if rent is paid in Mumbai, Chennai, Delhi, Kolkata); **or**
40% of **Salary**** (if rent is paid in places other than Mumbai, Chennai, Delhi, Kolkata)
- (c) Rent Paid (-) 10% of Salary**

Note:

(a) **Salary = Basic + D.A. (in terms) + Turnover Commission

Salary for the purpose of exemption u/s 10(13A) shall be of the period during which rental accommodation is occupied by the employee in the P.Y. i.e. the period during which the employee has incurred the rental expenditure.

(b) Exemption u/s 10(13A) shall be available to the employee only if he does not stay in his own house and he is incurring expenditure towards rent and the rent paid in respect of his rental accommodation exceeds 10% of his salary.

In other words, no exemption u/s 10(13A) shall be available if:

- (i) the employee has not paid any rent; or
- (ii) the employee stays in his own house; or
- (iii) the rent paid by the employee for his residential accommodation is not more than 10% of his salary.

(c) HRA exemption u/s 10(13) is dependent on:

- (i) Actual Amount of HRA Received by the employee
- (ii) Rent paid by the employee
- (iii) Salary of the employee
- (iv) Location of the residence of the employee

If all the above factors remain constant throughout the P.Y., then exemption shall be computed and allowed on an annual basis.

However, if any of the above factors change during the P.Y., then the exemption shall be computed and allowed on a monthly basis.

(d) Circular No. - 8/2013, Dated - 10/10/2013:

It is mandatory for the employee to report the PAN of the landlord to the employer if rent paid during the P.Y. is more than ₹. 1,00,000.

(4) Allowances exempt u/s 10(14) based on amount actually spent for official purpose:

1) Travelling Allowance	If the full amount is spent officially by the employee for the said purposes then, such allowance shall be fully exempt u/s 10(14).
(2) Daily Allowance	
(3) Conveyance Allowance	However, if the allowance is not spent fully by the employee for the said purposes then, such allowance shall be exempt u/s 10(14) to the extent it is spent and whatever remains unspent becomes taxable.
(a) Motor Car Allowance	
(b) Petrol Allowance	
(c) Diesel Allowance	
(d) Scooter Allowance	
(4) Academic/Research Allowance	
(5) Helper Allowance	
(6) Uniform Allowance	

Note:

If the question does not specify the amount spent out of the allowance received then the allowance will be fully exempt u/s 10(14) assuming that it is fully used for official purpose.

A suitable note in this regard needs to be given in the solution.

(5) Allowances Exempt u/s 10(14) to the extent of limits prescribed under Rule 2BB of the Income Tax Rules, 1962:

Children Education Allowance	<ul style="list-style-type: none"> - This allowance is given to an employee to meet the cost of education of his/her children. - It is exempt upto maximum ₹ 100 p.m. per child (Exemption is allowed for maximum 2 children) <p>Note: Children may include adopted or step children but shall not include grandchildren. Children can be any two children and there is no condition that it has to be first two children.</p>
Children Hostel Expenditure Allowance	<ul style="list-style-type: none"> - This allowance is given to the employee to meet the cost of any hostel in which his children are studying. - It is exempt upto maximum ₹ 300 p.m. per child (Exemption is allowed for maximum 2 children) <p>Note: Children may include adopted or step children but shall not include grandchildren. Children can be any two children and there is no condition that it has to be first two children.</p>

<p>Outstation or Running Allowance</p>	<ul style="list-style-type: none"> - This allowance is granted to an employee of transport sector undertaking to meet his personal expenses in the course of running the transport conveyance of the employer from one place to another. - Exempt upto least of the following amounts: <ul style="list-style-type: none"> (a) 70% of the Amount Received; or (b) Maximum ₹ 10,000 p.m. <p>Note:</p> <ul style="list-style-type: none"> (a) Outstation Allowance shall be exempt only if the employee is not in receipt of Daily Allowance. (b) If Outstation Allowance is given to any employee other than the employee of transport undertaking then the same will be fully taxable.
<p>Commutation or Transport Allowance</p>	<ul style="list-style-type: none"> - This allowance is granted to an employee to meet his expenditure on commuting between the place of his residence and the place of his duty. - Exemption is maximum ₹ 3,200 p.m. (In case of Handicap Employees only)
<p>Underground Area or Mining Area Allowance</p>	<ul style="list-style-type: none"> - This allowance is given to the employees working in mines or any other uncongenial unnatural climatic conditions which are underground. - Exemption is maximum ₹ 800 p.m.
<p>Tribal Area or Schedule Area or Agency Area Allowance</p>	<ul style="list-style-type: none"> - This allowance is given to the employee to meet the additional cost that he/she will have to incur while he/she is posted to any tribal/scheduled area. - Normally, this allowance is given in the states of Madhya Pradesh, Uttar Pradesh, Tamil Nadu, Karnataka, Tripura, Assam, West Bengal, Orissa, and Bihar. - Exemption is maximum ₹ 200 p.m.
<p>Hill Compensatory Allowance</p>	<ul style="list-style-type: none"> - This allowance is granted to the members of armed forces operating in hilly areas. - Exemption is maximum ₹ 300 p.m. (if the place is located at a height of 1,000 meters or more above the sea level). - Exemption is maximum ₹ 800 p.m. (in certain specified areas depending upon the height of the area from the sea level). - Exemption is maximum ₹ 7,000 p.m. (in the Siachen area of Jammu & Kashmir).

<p>High Altitude Allowance</p>	<ul style="list-style-type: none"> - This allowance is granted to the members of armed forces operating in high altitude areas. - Exemption is maximum ₹ 1,060 p.m. (for altitude of 9,000 to 15,000 feet). - Exemption is maximum ₹ 1,600 p.m. (for altitude above 15,000 feet).
<p>Highly Active Field Area Allowance</p>	<ul style="list-style-type: none"> - This allowance is granted to the members of armed forces. - Exemption is maximum ₹ 4,200 p.m.
<p>Island Duty Allowance</p>	<ul style="list-style-type: none"> - This allowance is granted to the members of armed forces in Andaman & Nikobar and Lakshadweep group of Island. - Exemption is maximum ₹ 3,250 p.m.
<p>Border Area or Remote Locality or Difficult Area or Disturbed Area Allowance</p>	<ul style="list-style-type: none"> - This Allowance is given to the members of armed forces posted in the border/remote/difficult/disturbed areas. - The exemption may be ₹ 1,300 p.m. or ₹ 1,100 p.m. or ₹ 1,050 p.m. or ₹ 750 p.m. or ₹ 300 p.m. or ₹ 200 p.m. depending upon the area of posting.
<p>Counter Insurgency Allowance</p>	<ul style="list-style-type: none"> - This Allowance is granted to the members of armed forces operating in any area away from the permanent locations for a period of more than 30 days. - Exemption is maximum ₹ 3,900 p.m. <p>Note: If this exemption is taken, employee cannot take the exemption in respect of border area allowance.</p>
<p>Compensatory Field Area Allowance</p>	<ul style="list-style-type: none"> - This Allowance is granted to the members of armed forces. - Exemption is maximum ₹ 2,600 p.m. <p>Note: If this exemption is taken, employee cannot take the exemption in respect of border area allowance.</p>
<p>Compensatory Modified Field Area Allowance</p>	<ul style="list-style-type: none"> - This Allowance is granted to the members of armed forces. - Exemption is maximum ₹ 1,000 p.m. <p>Note: If exemption is taken, employee cannot take the exemption in respect of border area allowance.</p>
<p>Note: Any expenditure incurred with respect to above allowances shall not be considered i.e. to be ignored as the amount of exemption u/s 10(14) in respect of such allowances is not dependent on amount spent but it is determined with regard to the limits prescribed as above in Rule 2BB of the Income Tax Rules, 1962.</p>	

(6) Fully Exempt Allowances:

- (a) All allowances received by Judges of High Court/Supreme Court.
- (b) Allowances received by the employees of United Nations Organisation (UNO).
- (c) Compensatory allowance received by judges.
- (d) Sumptuary allowance given to High Court and Supreme Court Judges.
- (e) Allowances & perquisites paid or allowed outside India by the Government to the citizen of India for services rendered outside India (**Foreign Allowances & Perquisites**) are fully exempt u/s 10(7).

Standard Deduction

A standard deduction u/s 16(ia) shall also be allowed from the income chargeable to tax under the head 'Salaries'.

Such standard deduction is least of the following:

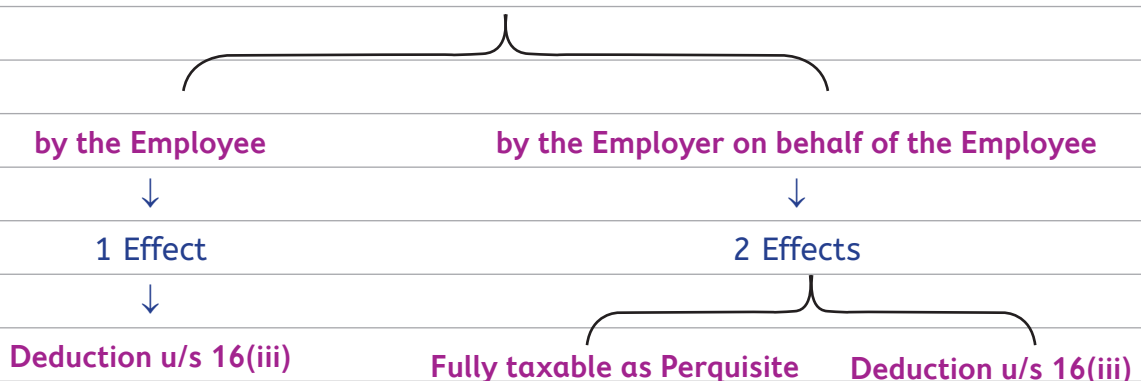
- (a) ₹ 50,000 (Finance Act' 2019 Amendment); or
- (b) Gross Taxable Salary

Professional Tax

Article 276 of the Constitution of India gives the power to the State Governments to charge tax on any profession or employment which is known as Professional Tax or Employment Tax.

The same is allowed as a deduction u/s 16(iii) on payment basis only.

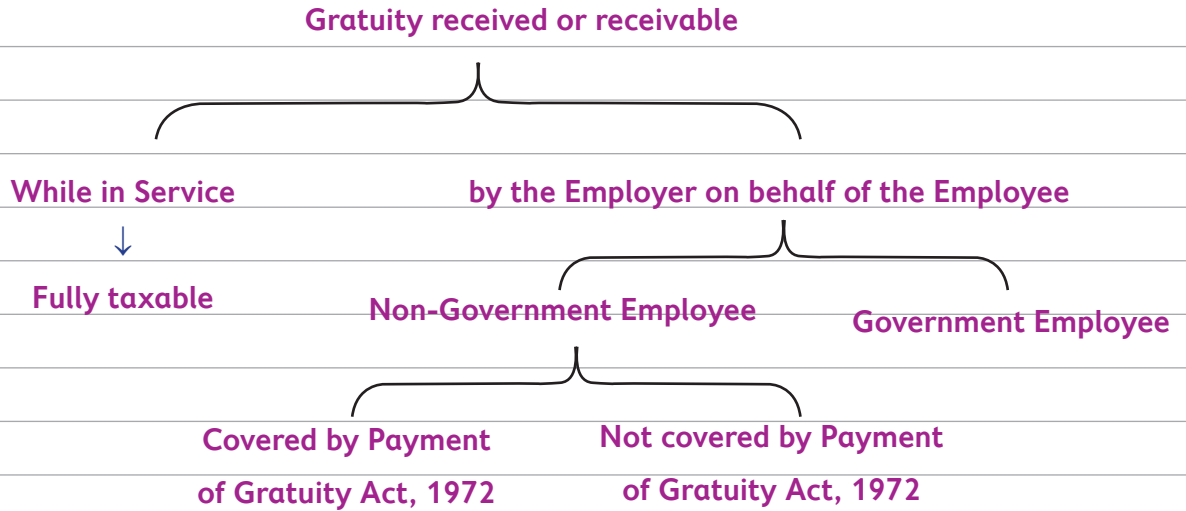
Where the Professional Tax is paid



Retirement/Superannuation Benefits Gratuity

It is a gratuitous payment made by an employer to his employee as an appreciation of services rendered in the past. Payment of gratuity is normally made when an employee retires from the organisation or if the employee dies then its payment is made to employee's legal heirs/nominees.

Tax treatment of gratuity in different situations:



<p>Exemption u/s 10(10) shall be least of the following:</p> <p>(a) Gratuity actually received or receivable</p> <p>(b) Maximum ₹ 20,00,000 u/s 10(10)</p> <p>(c) $\frac{15}{26}$ (x) Last Drawn Salary p.m.</p> <p>(x) No. of years of service</p> <p>✓ Last Drawn Salary p.m.: [Basic Salary (+) D.A.] of the month immediately preceding to the month of retirement.</p>	<p>Exemption u/s 10(10) shall be least of the following:</p> <p>(a) Gratuity actually received or receivable</p> <p>(b) Maximum ₹ 20,00,000 u/s 10(10)</p> <p>(c) $\frac{15}{30}$ (x) Average Salary p.m. (x) No. of completed years of service</p> <p>✓ Average Salary p.m.: [Basic Salary (+) D.A. (in terms) (+) Turnover Commission] for 10 months immediately preceding to the month of retirement (÷) 10 months</p>
<p>✓ No. of years of service: It means no. of completed years of service and any part of the year in excess of 6 months shall be taken as a full year.</p>	<p>✓ No. of completed years of service: It means no. of completed years of service (fraction of the year shall be ignored even if it is more than 6 months).</p>

Note:

(1) Where the gratuity is received from 2 or more employers in the same year then aggregate amount of gratuity exempt from tax cannot exceed ₹ 20,00,000. Also, where the gratuity is received in any earlier year from former employer and again received from another employer in a later year, the limit of ₹ 20,00,000 shall be reduced by the amount of gratuity exempt earlier.

(2) The exemption in respect of gratuities would be available even if the gratuity is received by the widow, children or dependents of a deceased employee.

(3) Gratuity paid to the legal heir/nominee of the employee after the death of the employee:

Gratuity becomes due before the death of employee, & paid to legal heir/nominee after the death of the employee shall be taxable in the hands of the employee on due basis.

Since income under the head 'Salaries' is taxed on due or receipt whichever is earlier basis. Not taxable in hands of legal heir/nominee on receipt basis because it gets taxed in the hands of the employee. The taxable amount of gratuity shall be calculated after allowing exemptions as discussed above. However, the amount of tax, if any, on the taxable amount of gratuity shall be recovered from the legal heir/nominee out of the estate transferred by the deceased employee to such legal heir/nominee.

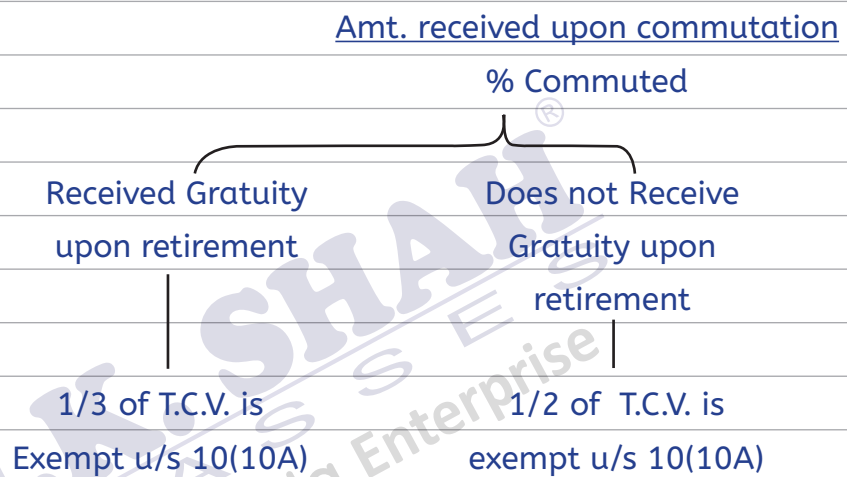
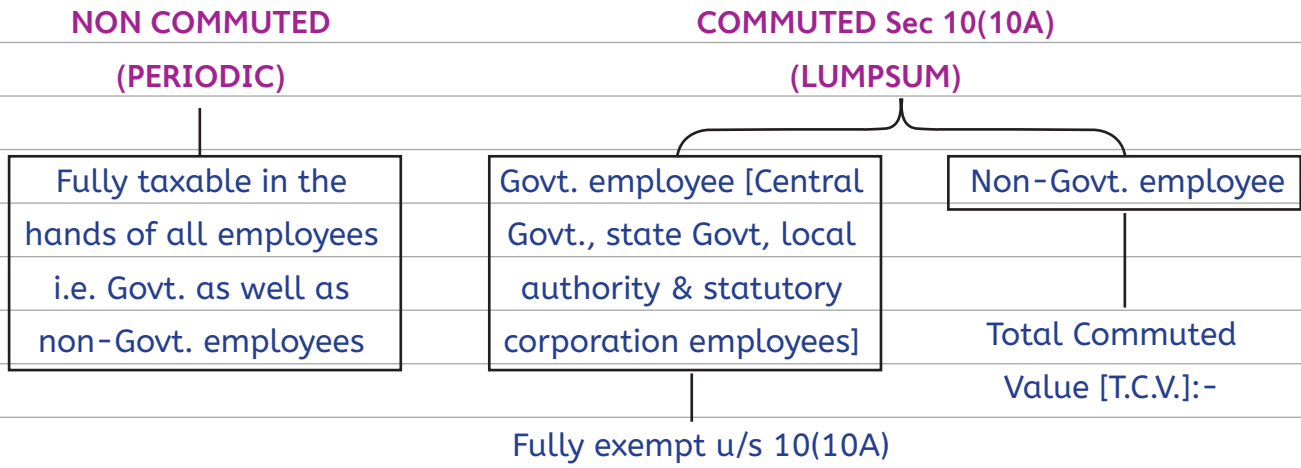
Gratuity neither becomes due in the hands of the employee nor it is received by the employee while he/she is alive, shall not be taxable in the hands of employee.

Since the amount of gratuity never gets due in the hands of the employee nor the employee receives such gratuity. Further, gratuity is received by the legal heir/nominee after the death of employee, but the same is not taxable for the legal heir/nominee also because it is treated as a capital receipt in their hands.

Pension

It is the amount received or receivable by an employee from his employer after his employment has come to an end.

Normally, it is as a periodic payment made by the Government or a company or other employers to the employee in consideration of past services, payable after his retirement.



Note:

(1) Fully Commuted Pension:

It is the amount of commuted pension which the employee would have received if he would have commuted the pension fully (i.e. amount of commuted pension receivable on 100% commutation of the monthly pension).

(2) It is not necessary that the employee always commutes whole of the monthly pension, if the employee commutes only a part of the monthly pension then the remaining part will be periodically received by him as uncommuted pension.

(3) Any **commuted pension** received by an individual out of the annuity plan of the Life Insurance Corporation (LIC) from a fund set up by LIC shall be fully exempt. However, any pension received by the assessee from any life insurer on maturity of life insurance policy on a **monthly basis is fully taxable under the head 'Other Sources'**.

(4) **Pension received by a recipient of gallantry awards:**

Any income by way of pension received by an individual who has been awarded Param Vir Chakra or Maha Vir Chakra/Vir Chakra or Such other gallantry award as the Central Government may, by notification in the Official Gazette specify in this behalf shall be fully exempt u/s 10(18) in the hands of such individual.

Further, in case of death of the awardee, any family pension received by any member of the family of such awardee shall also be exempt from tax u/s 10(18).

(5) **Family Pension received by the widow/children/nominee of the members of armed forces:**

Where the death of any member of the armed forces has occurred in the course of operational duties in certain specified circumstances, then, the amount of family pension received by the widow/children/nominee of such member shall be fully exempt u/s 10(19) in the hands of such widow/children/nominee.

(6) Pension received or receivable by the family members after the death of the employee in every other case; also known as **family pension is taxable under the head 'Other Sources' as per the provisions of section 56(1)** for such family member.

However, **a standard deduction u/s 57 shall be allowed to the extent of least of the following:**

- (a) 1/3rd of such family pension; or **Maximum ₹ 15,000**

Leave Salary/Leave Encashment

As per the service rules (employment rules), an employee is allowed to have certain paid leaves (i.e. leave without any salary deduction) from his employer.

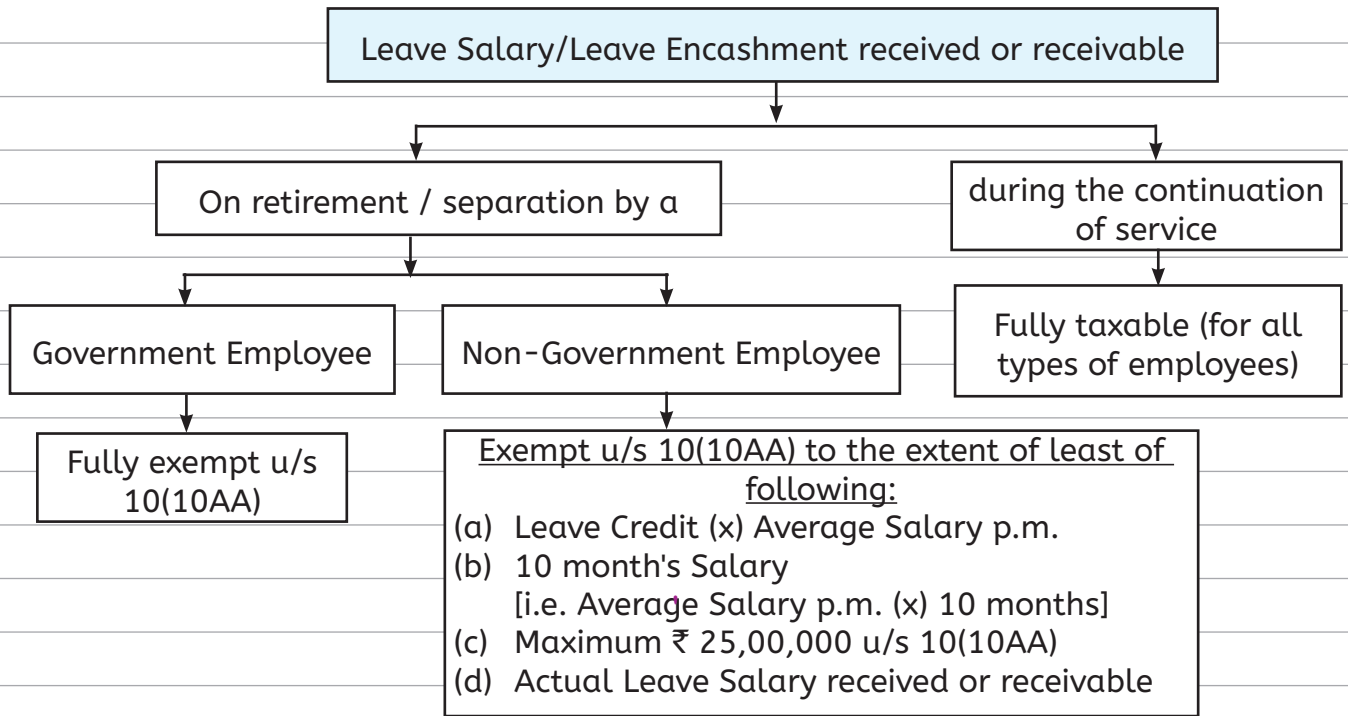
It may happen that the employee does not avail all the paid leaves which are allowed to him by his employer. In such scenario, the employee has leave accumulated to his credit (i.e. excess of leave allowed over leave availed).

Further, as per the service rules it may happen that, the leaves standing to the credit of the employee:

- (a) would lapse; or
(b) to be encashed while he is in service; or
(c) to be carried-forward and accumulated till his employment with the employer.

If the said leave credit lapses then there is no tax effect. However, if the employee goes for encashment of this leave credit by surrendering it then the amount received or receivable by him from his employer is known as leave salary/leave encashment.

Tax treatment of leave salary/leave encashment in the different situations:'



Note:

(1) Average Salary p.m.:

[Basic Salary (+) D.A. (in terms) (+) Turnover Commission] for 10 months immediately preceding the date of retirement (÷) 10 months

(2) Leave Credit:

If the leave allowed as per service rules by the employer is **more than 30 days** in a year then for the purpose of computation of exemption u/s 10(10AA); leave credit is to be calculated on the basis of **maximum 30 days leave for every completed year of service.**

However, if the leave allowed as per service rules by the employer is **less than 30 days** in a year then for the purpose of computation of exemption u/s 10(10AA); leave credit has to be calculated on the basis of **such lower number of days leaves for every completed year of service.**

(3) Where the leave salary is received from 2 or more employers in the same year then aggregate amount of leave salary exempt from tax cannot exceed ₹ 25,00,000.

Also, where the leave salary is received in any earlier year from former employer and again received from another employer in a later year, the limit of ₹ 25,00,000, shall be reduced by the amount of leave salary exempt earlier.

(4) Leave salary received or receivable by the **legal heir/nominee of a deceased employee** on the death of such employee is a capital receipt which is **not taxable** in the hands of such legal heir/nominee.

Provident Fund

Provident Fund is a scheme which gives financial security and substantial benefits to an employee at the time of his retirement.

As per the provident fund scheme, a specified sum is deducted from employee's salary as his contribution towards the fund and deposited to his provident fund account on a periodic basis.

The employer also contributes a specified sum in the said account out of his pocket (generally a same amount as that of employee's contribution).

The contributions made by the employee & the employer to this fund are then invested in approved securities.

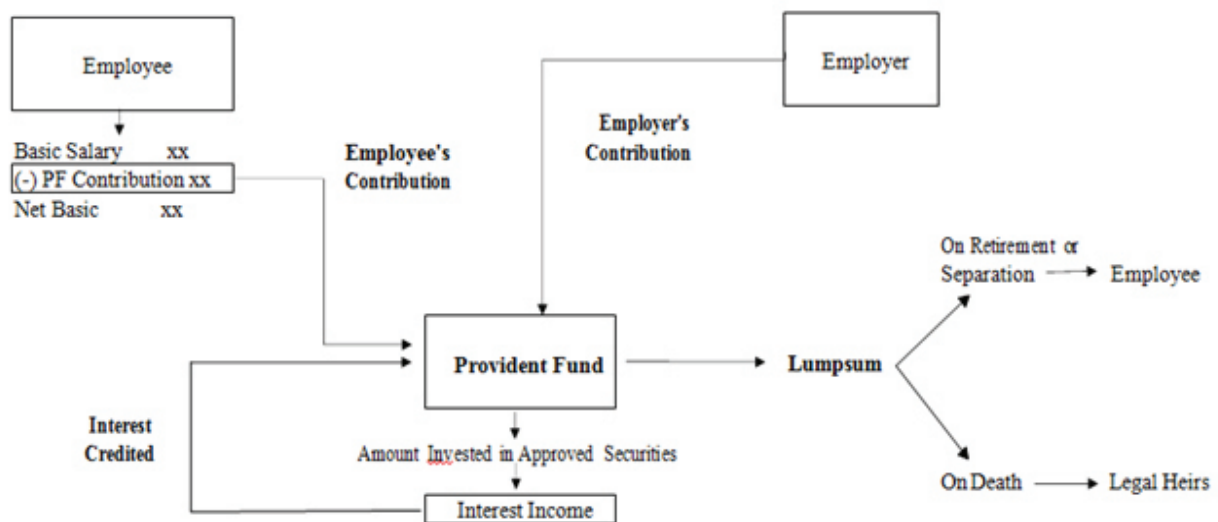
Interest is earned thereon which is credited to the employee's provident fund account on a regular basis.

Thus, the credit balance in a provident fund account of an employee consists of the following amounts:

- (a) Employee's Contribution
- (b) Interest on Employee's Contribution
- (c) Employer's Contribution
- (d) Interest on Employer's Contribution

The accumulated credit balance in provident fund account is paid to the employee at the time of his retirement or separation. However, in the case of death of the employee, such accumulated balance is paid to employee's legal heir/nominee.

The above concept of provident fund can be understood by way of the following diagram:



Further, there are three types of provident funds, normally known as employees' provident funds:

(1) **Statutory Provident Fund (SPF):**

SPF is a fund which is set up and maintained by the government as per the provisions of Provident Fund Act, 1925.

It is applicable to the employees of government, semi-government organisations, local authorities, railways, universities and all recognized educational institutions.

(2) **Recognised Provident Fund (RPF):**

Recognised provident fund means a provident fund recognised by the Commissioner of Income Tax (CIT) for the purposes of income tax. It is governed by Part A of Schedule IV to the Income Tax Act, 1961. This schedule contains various rules regarding:

- (a) **Recognition of the fund**
- (b) Employee's and Employer's contribution to the fund
- (c) Treatment of accumulated balance etc.

A fund constituted under the Employees' Provident Fund and Miscellaneous Provisions Act, 1952 shall also be a Recognised Provident Fund. As per the provisions of Employees' Provident Funds & Miscellaneous Provisions Act, 1952, RPF is applicable to establishments where 20 or more employees are employed at any time during the period of preceding 12 months. Establishments with less than 20 employees can also set up such fund, if all the employees have given consent to it. The fund is normally maintained by the Central Government and all the monies are to be deposited by the employer with the Central Government on or before the prescribed due dates. However, if employer has 100 or more employees then the employer can himself maintain the provident fund with the consent of all employees. Further, this fund should be approved by the PF Commissioner as well as the Commissioner of Income Tax for making contributions by the employees.

(3) **Unrecognised Provident Fund (UPF):**

A fund which is not recognised by the Commissioner of Income Tax is known as Unrecognised Provident Fund (UPF).

Tax treatment of different amounts based on the type of provident fund

Particulars	SPF	RPF	UPF
Employee's Contribution	Deduction u/s 80C (✓)	Deduction u/s 80C (✓)	Deduction u/s 80C (✗)
<p>Note: Employee's Contribution to any provident fund is always out of his salary which has already suffered tax. Hence, the same is not to be considered separately once again under the head 'Salaries' for the purpose of taxability i.e. the same is to be ignored while computing income under the 'Salaries'.</p>			
Employer's Contribution	Fully exempt in the year of contribution	<p><u>Exempt to the extent of least of the following:</u></p> <p>(a) 12% of **Salary; or</p> <p>(b) Amount of actual contribution by the employer</p> <div style="border: 1px solid black; padding: 5px;"> <p>**Salary = Basic (+) D.A. (in terms) (+) Turnover Commission</p> <p>Note: Salary shall be calculated for such period for which the employee was employed during the previous year.</p> </div>	Fully exempt in the year of contribution
Interest Credited	Fully exempt u/s 10(11) in the year of credit to the PF Account	<p><u>Exempt to the extent of least of the following:</u></p> <p>(a) Amount of Interest computed @ 9.5% rate of interest; or</p> <p>(b) Amount of actual interest credited to the RPF account*</p>	Fully exempt in the year of credit to the PF Account *

	<p>* Note: If on or after 1-4-2021 if employee's contribution exceeds 2,50,000 into such fund, then interest on such contribution will not be exempt. In other words if employee's contribution is more then 2,50,000 P.A. in R.P.F + P.P.F, then interest on excess contribution will be taxable.</p>		
Lumpsum Received	Fully exempt u/s 10(11)	Fully exempt u/s 10(12) provided that:	Taxable in the following manner:
		<p>(a) the employee has rendered continuous service of five years or more before his retirement / separation</p> <p>(b) if not, then termination of the service is due to ill health or discontinuance of business of employer or any other reason which is beyond the control of the employee. on termination of the employment, the employee obtains</p> <p>(c) employment elsewhere and the balance in the RPF A/c maintained by the old employer is transferred to RPF A/c maintained by such new employer.</p>	<p>(a) Employer's Contribution & Interest thereon is fully taxable as income under the head 'Salaries'</p> <p>(b) Interest on Employee's Contribution is taxable as income under the head 'Other Sources' Employee's Contribution</p> <p>(c) is not taxable as the same money which was invested out of the past salary of the employee is coming back. Hence, the same needs to be ignored</p>

		(d) The entire balance standing to the credit of the employee in his RPF A/c is transferred to his NPS A/c as referred to in section 80CCD.	
		Note: If the employee is not covered under any of the above situations, then, the lumpsum shall be deemed to have been received or receivable out of the UPF account and shall be taxed accordingly.	

Approved Superannuation Fund (ASAF)

It is the fund maintained by the employer for the timely payment of pension to the employees. The same needs to be approved by the Commissioner of Income Tax.

Tax treatment of the various amounts in case of ASAF:

Particulars	Tax Treatment
Employee's Contribution to ASAF A/c	Deduction u/s 80C (✓)
Interest Credited to ASAF A/c	Fully exempt
Lumpsum received from ASAF A/c	Fully exempt u/s 10(13) - (Refer Note below)

Note:

Any payment received by any employee from an ASAF shall not be included in his total income if the payment is made:

- on the death of the beneficiary;
- to the employee in lieu of or in commutation of an annuity on his retirement at or after a specified age or on his becoming incapacitated prior to such retirement;
- by way of refund of contribution on the death of beneficiary;
- by way of transfer to the account of the employee under a pension scheme notified u/s 80CCD i.e. Notified Pension Scheme (NPS).

The amount or the aggregate of amounts of any contribution made to the account of assessee by the employer –

- (a) In a recognised provident fund
- (b) Under pension scheme [which is entitled to deduction u/s 80CCD(2) employer's contribution].
- (c) To an approved superannuation fund.

The sum total of above, if the total exceeds 7,50,000, the **excess** will be taxable u/s 17(2)(vii). The excess which is taxable u/s 17(2)(vii), any interest etc. in relation to above, will be taxable u/s 17(2)(viiia).

In other words, interest, dividend or any other amount of similar nature on the amount which is included in total income under section 17(2)(vii) would also be treated as a perquisite.

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

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

Where,

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

Favg	(Amount or aggregate of amounts of balance to the credit of recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund on 1st April, 2021 + Amount or aggregate of amounts of balance to the credit of recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund on 31st March, 2022)/2
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Where the amount or aggregate of amounts of TP1 and PC1 exceeds the amount or aggregate of amounts of balance to the credit of the specified fund or scheme on 1st April, 2021, 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.

Retrenchment Compensation

Retrenchment compensation means the compensation paid under Industrial Disputes Act, 1947 or under any other Act, Rule, Order or Notification issued under any law to an employee or workman on termination, transfer of employment or closing down of an undertaking.

It may be noted that compensation on account of termination and due to modification in terms and conditions of employment would be taxable as 'profits in lieu of salary'.

However, Retrenchment compensation shall be exempt u/s 10(10B), subject to least of following:

- (a) Amount received or receivable on retrenchment; or
- (b) Maximum Amount u/s 10(10B) i.e. ₹ 5,00,000; or
- (c) Amount as per the Industrial Disputes Act, 1947.

[¹⁵/₂₆ (x) Average Pay (x) No. of years of service]

The aforesaid limits would not be applicable if the **compensation is paid in accordance with any scheme, which is approved by the Central Government** for giving special protection to workmen under certain circumstances. In such case the compensation shall be **fully exempt**.

Note:

(1) Average Pay:

Average pay means average of the wages payable to a workman:

- in the case of **monthly paid** workman, in the **3 complete calendar months,**

- in the case of **weekly paid** workman, in the **4 calendar weeks**,
- in the case of **daily paid** workman, in the **12 full working weeks**,

preceding the date on which the average pay becomes payable, if the workman had worked for 3 complete calendar months or 4 complete weeks or 12 full working days, as the case may be, and where such calculation cannot be made, the average pay shall be calculated as the average of the wages payable to a workman during the period he has actually worked.

****Wages: = BS + DA (Both) [in terms + Not in terms]**

(2) No. of years of service:

It means no. of completed years of service **and any part of the year in excess of 6 months shall be taken as a full year.**

Voluntary Retirement Scheme (VRS) Compensation

If the employee takes retirement before his scheduled date of retirement then it is called voluntary retirement.

Some huge organisations or government enterprises normally come up with a scheme of voluntary retirement (also known as '**Golden Handshake scheme**') wherein, in order to cut down on the increasing employee costs, the employees are given an option to retire voluntarily in consideration of a handsome lumpsum payment known as VRS compensation.

Such lumpsum payment received or receivable by an employee at the time of voluntary retirement would be taxable as 'profits in lieu of salary'.

However, such VRS Compensation would be exempt u/s 10(10C) to the extent of least of the following:

Least of following:

- (a) Last drawn Salary** p.m. (×) 3 (×) No. of completed years of service or
- (b) Last drawn Salary** p.m. (×) No. of balance months of service
- (c) Amount Received or Receivable on Voluntary Retirement; or
- (d) Maximum exemption once in a life time u/s 10(10C) of ₹ 5,00,000

Perquisites

Meaning

- ✓ Perquisite means any additional personal benefits given by any employer to his employees.

In other words, perquisites are:

- personal benefits;
 - **in addition to normal salary** to which the employee has a right by virtue of his employment.
- ✓ Perquisites may be provided in **cash or in kind**.
 - ✓ Further, they may be provided **free of cost or at a concessional rate**.
 - ✓ Also, they may or **may not be given on a regular basis**.
 - ✓ It is pertinent to note that, if such personal benefits arise **in the course of employment**, only then they are chargeable to tax under the head 'Salaries'.
However, if such personal benefits arise **in the course of business or profession or otherwise then, they are** chargeable under the head 'PGBP' or 'Other Sources' (as the case may be).
 - ✓ Perquisite shall become taxable only if it has a legal origin. An unauthorized advantage taken by an employee without his employer's sanction cannot be considered as a perquisite under the Income Tax Act, 1961.

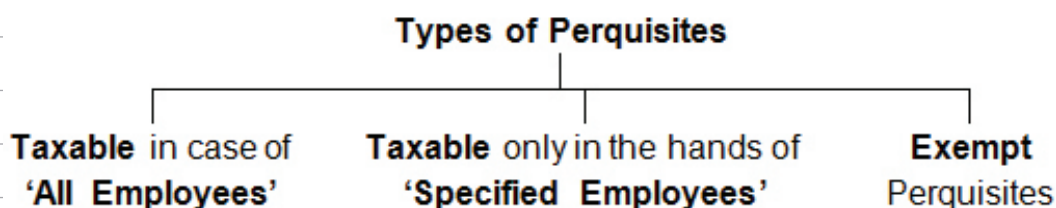
For example:

Suppose Mr. Vinit, an employee, was given a house by his employer. On 31.03.2023, he is terminated from the services. However, he continues to occupy the house without the permission of the employer for six more months after which he is evicted by the employer. The question arises whether the value of the benefit enjoyed by him during such six months period can be considered as a perquisite and be charged to tax under the head 'Salaries'.

It cannot be done since the relationship of employer-employee ceased to exist after 31.03.2023. However, the definition of income is wide enough to bring the value of such benefit enjoyed by Mr. Vinit to tax as Income from 'Other Sources'.

Perquisite under the Income Tax Act, 1961 - [Section 17 (2)]

Based on the definition provided u/s 17(2), perquisites can be classified in the following manner:



(I) Perquisites Taxable in case of 'All Employees'

- (1) Value of **rent-free accommodation provided** to the assessee by his employer - [Section 17(2)(i)].
- (2) Value of **any concession in the matter of rent in respect of any accommodation provided** to the assessee by his employer - [Section 17(2)(ii)].
- (3) **Any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee** - [Section 17(2)(iv)].
- (4) **Any sum payable by the employer** whether directly or through a fund, **other than a recognised provident fund or an approved superannuation fund or deposit-linked insurance fund,**
 - to effect an assurance on the life of the assessee; or
 - **to effect a contract for an annuity** - [Section 17(2)(v)].
- (5) **Value of any specified security or sweat equity shares allowed or transferred** directly or indirectly by the employer or former employer **free of cost or at concessional rate** to the assessee - [Section 17(2)(vi)].
- (6) Contribution to an approved superannuation fund (ASAF) by the employer in respect of the assessee, **in excess of ₹ 1,50,000** - [Section 17(2)(vii)].
- (7) **Value of any other fringe benefit or amenity as may be prescribed** by the CBDT - [Section 17(2)(viii)].

Rule 3(7) prescribes the following benefits or amenity taxable in case of all the employee:

- Interest free or concessional loan
- Travelling, touring and accommodation
- Free or concessional food and non-alcoholic beverages
- Gift, voucher or token in lieu of such gift
- Credit card expenses
- Club expenditure
- Use of movable assets
- Transfer of movable assets
- Any other benefit or amenity

(II) Perquisites Taxable only in the hands of 'Specified Employees'

Sometimes instead of discharging employee's obligation, employer provides perquisites in the form of facility to the employee. Such perquisites are taxable in the hands of specified employees only.

The value of any benefit or amenity granted or provided free of cost or at concessional rate shall be taxable in the hands of specified employees.

Specified Employees:

- (a) by a company to an employee, who is a director thereof;
- (b) by a company to an employee being a person who has a substantial interest in the company;

A person is said to have substantial interest in the company, if he is a **beneficial owner** of **equity shares** carrying **20% or more** voting rights.

- (c) by any employer (including a company) to an employee to whom the provisions of clause (a) & (b) do not apply and whose net cash salary exceeds ₹. 50,000.

For computing net cash salary of ₹ 50,000, the following are excluded or deducted:

- all non-monetary benefits;
- monetary benefits which are exempt u/s 10 (for example, HRA or education allowance or hostel allowance are not to be included to the extent to which they are exempt u/s 10); and
- deductions u/s 16.

Note:

- If an employee is employed with more than one employer then, aggregate of salary received from all the employers is to be taken into account for determining the above ceiling limit of ₹ 50,000.

Followings are the examples of such facilities which are taxable in the hands of specified employees as per section 17(2)(iii):

- (i) Provision of sweeper, gardener, watchman or personal attendant
- (ii) Facility of use of gas, electricity or water supplied by employer
- (iii) Use of motor car
- (iv) Free or concessional educational facilities
- (v) Free or concessional tickets

(III) Exempt Perquisites

- (1) Expenses on **telephone/mobile phones** of the employees.
- (2) **Conveyance facility** provided to cover the journey **between office and residence**.
- (3) Actual **travelling expenses** paid/reimbursed by the employer for journeys undertaken by employees for **business purposes**.

- (4) Free or concessional tickets (i.e. transport facility) provided by an employer engaged in the business of carrying of passengers or goods to his employees either free of charge or at concessional rate.
- (5) **Privilege passes and privilege ticket orders granted by Indian Railways** to its employees i.e. **Travelling facility** to employees of **airlines**.
- (6) **Perquisites allowed outside** India by the Government to a citizen of India for rendering services outside India
- (7) Employer's contribution to **staff group insurance scheme (i.e. group insurance premium)**.
- (8) Payment of annual premium by employer on **personal accident policy** taken by him in respect of his employee.
- (9) **Refreshment** provided to all employees during working hours in office premises.
- (10) **Subsidized lunch or dinner** provided to an employee.
- (11) **Recreational facilities (including club facilities)** extended to employees in general i.e. not restricted to a few select employees;
- (12) Amount spent on **training** of employees or for **refresher management course**.
- (13) Sum payable by an employer to a RPF or an approved superannuation fund or deposit-linked insurance fund established under the Coal Mines Provident Fund or the Employees' Provident Fund and Miscellaneous Provisions Act;
- (14) Leave travel concession/assistance (LTC/LTA) subject to conditions.
- (15) Medical facility subject to certain conditions.
- (16) Computer/laptops given (providing only use of computer/laptops, ownership is retained by the employer) to an employee for official/personal use.
- (17) Provisioning of periodicals and journals required for discharge of work.

- (18) Hotel Accommodation on transfer of an employee not exceeding 15 days in aggregate.
- (19) Transfer without consideration of movable asset (other than computers, electronic gadgets and motor cars) by the employer after using it for 10 years or more.
- (20) If any amount (without any limit) is received by the employee from employer towards treatment of covid-19 during financial year 19-20 & subsequent years, it is not taxable.

Valuation of Perquisites

The perquisites as stated above in section 17(2) and their valuation is discussed in detail hereafter.

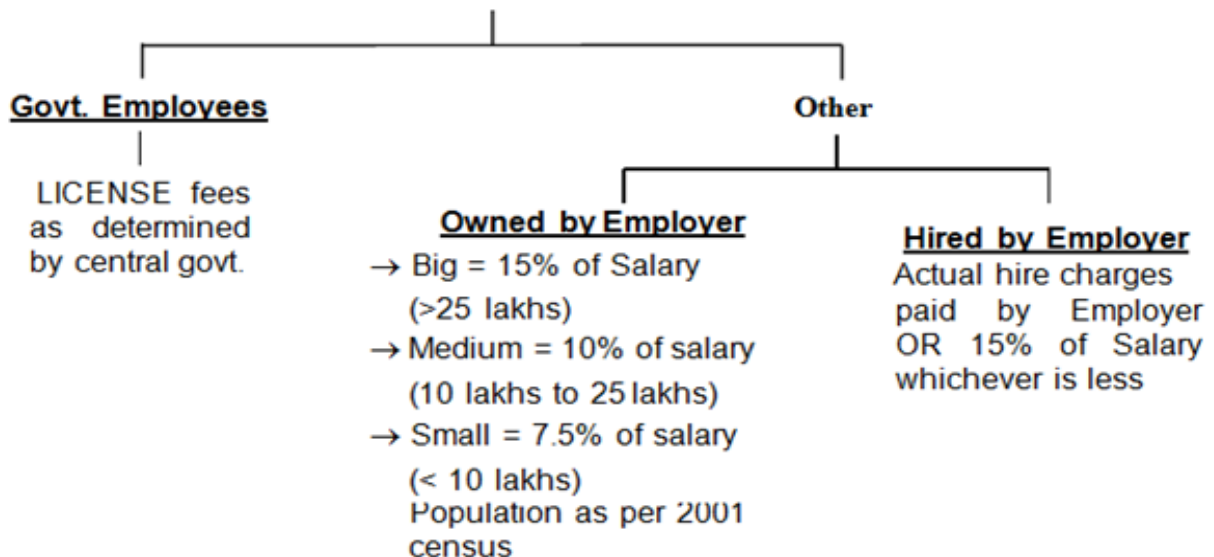
Accommodation Facility - [Section 17(2)(i) & 17(2)(ii) r.w. Rule 3(1)]

Accommodation

Sec. 17(2)(i) & Sec. 17(2)(ii) - Accommodation provided by employer computed in such manner as may be prescribed

Value of accommodation	xxx
Add: Furnishing charges, if any	xx
→ Owned by employer:	
10% p.a. of original Cost	
→ Hired by employer:	
Actual hire charges paid by employer	<u>xxx</u>
Less: Recovery from employee	<u>(xx)</u>
Taxable perquisite value	<u>xxx</u>

VALUE OF ACCOMODATION



Note:

(1) **Salary** includes pay, allowances, bonus or commission payable monthly or otherwise or any monetary payment, by whatever name called, from one or more employers, as the case may be.

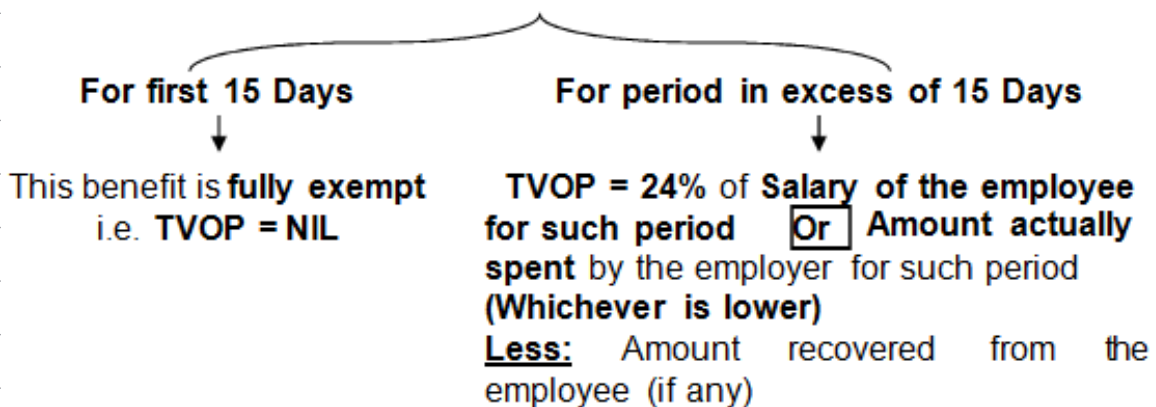
However, it does not include the following:

- DA (not in terms)
- employer's contribution to provident funds
- value of perquisites (monetary as well as non-monetary)
- exempt portion of allowances
- lumpsum payments received at the time of retirement

Salary is to be taken on due basis i.e. salary accrued for the period for which the accommodation is occupied by the employee shall be considered whether or not received by the employee during such period. Hence, any advance salary received during such period is not to be included.

Further, salary from all the employers in respect of such period shall be taken into consideration.

(2) **Hotel Accommodation on transfer of the employee**

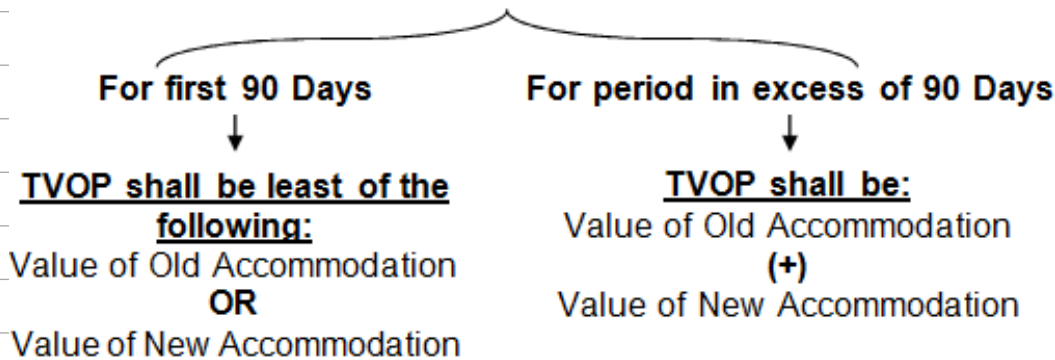


- Expenses on hotel accommodation incurred by the employer or reimbursed by the employer to the employee while the employee is on **official tour, shall not be taxable** in the hands of the employee i.e. the **TVOP = NIL**.
- However, expenses on hotel accommodation incurred by the employer or reimbursed by the employer to the employee while the employee is on a **vacation/personal tour, shall be fully taxable** in the hands of the employee.

TVOP = Expenses on hotel accommodation incurred/reimbursed by the employer

Less: Amount recovered from the employee (if any)

(3) Double Accommodation on transfer of the employee



(4) The above valuation rules do not apply in a case where the accommodation is provided by the employer to the employees working at mining site, off-shore site, dam site, on-shore oil exploration site, project execution site, power generation site,

- if such accommodation is of temporary nature
- having area < 800 sq. ft.;

and is located in an area which is away from the local limits of the municipality by 8 kms. or more; or in a remote area i.e. an area which is located at least 40 kms. away from a town having a population not exceeding 20,000.

Motor Car Facility - [Section 17(2)(iii) r.w. Rule 3(2)]

Part – I : Motor car owned by the employee

(A) **Expenses met by the Employee:** Not a perquisite. Hence, the same needs to be ignored.

(B) **Expenses met by the Employer:**

(a) Motor car is used for official purpose only	Not Taxable (Note 1) i.e. TVOP = NIL
(b) Motor car is used for personal purpose only	TVOP = Actual expense met by the employer <u>Less:</u> Amount recovered from the employee (if any)
(c) Motor car is used partly for official purpose & partly for personal purpose	TVOP = Actual expenses met by the employer <u>Less:</u> Amount recovered from the employee (if any) <u>Less: Exempt Amount</u> [₹ 1,800 p.m. if engine capacity is ≤ 1600cc (+) ₹ 900 p.m. if chauffer (driver) is also provided] [₹2,400 p.m. if engine capacity is > 1600cc (+) ₹ 900 p.m. if chauffer (driver) is also provided]

Part – II : Motor car owned by the employer or taken on hire by the employer

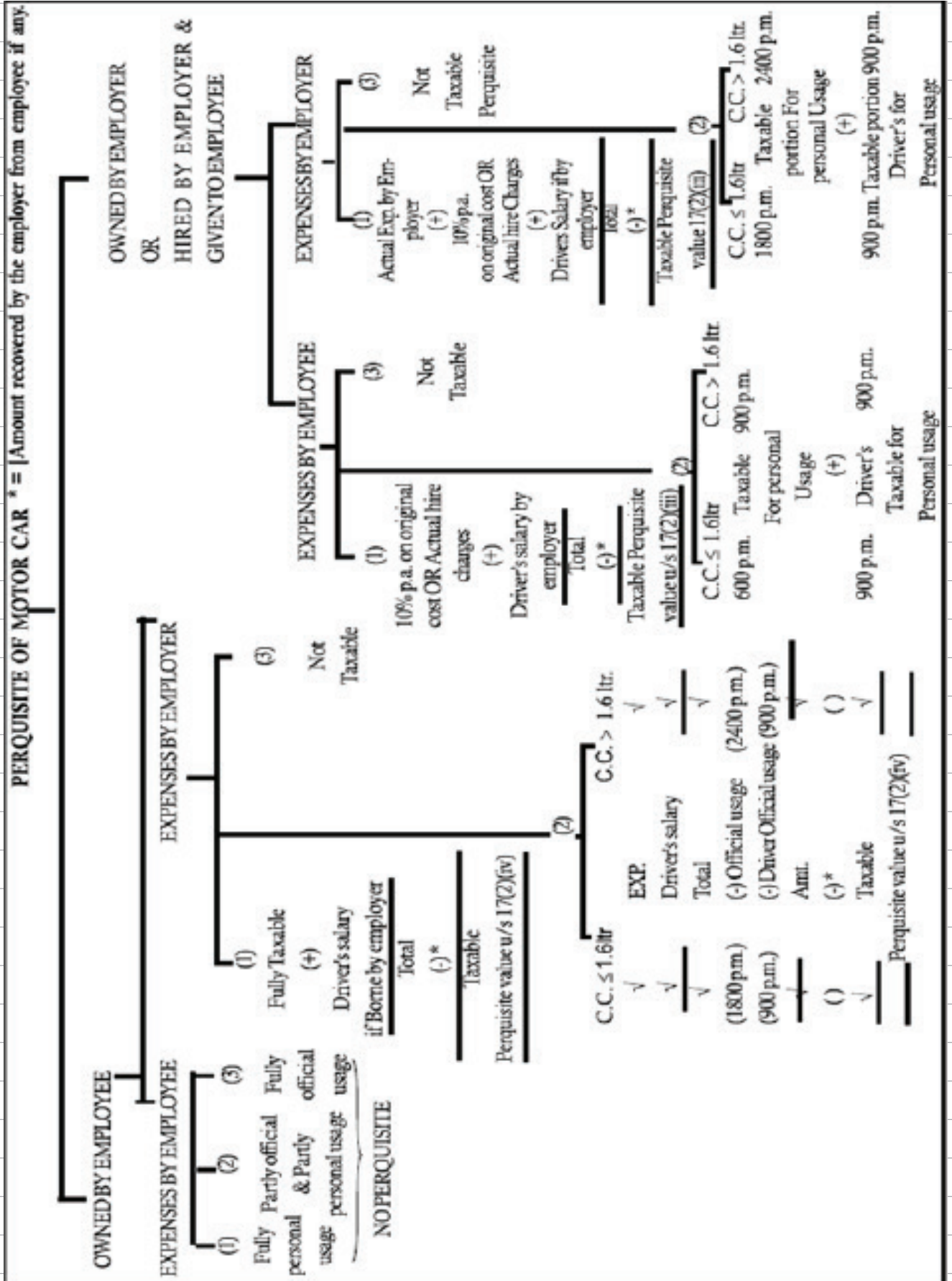
(A) **Expenses met by the Employer:**

(a) Motor car is used for official purpose only	Not Taxable (Note 1) i.e. TVOP = NIL
(b) Motor car is used for personal purpose only	TVOP = Actual expenses met by the employer <u>Add:</u> 10% p.a. of the Actual cost of the motor car OR Hire charges of the motor car (as the case may be)

(c) Motor car is used partly for official purpose & partly for personal purpose	<p>TVOP = [₹ 1,800 p.m. if engine capacity is \leq 1600cc (+) ₹ 900 p.m. if chauffer (driver) is also provided]</p> <p>[₹2,400 p.m. if engine capacity is > 1600cc (+) ₹ 900 p.m. if chauffer (driver) is also provided]</p> <p>Note: Amount (if any); recovered from the employee towards this perquisite shall be ignored.</p>
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(B) Expenses met by the Employee:

(a) Motor car is used for official purpose only	Not a perquisite. Hence, the same needs to be ignored.
(b) Motor car is used for personal purpose only	<p>TVOP = 10% p.a. of the actual cost of the motor car OR Actual hire charges of the motor car (as the case may be)</p> <p>Add: Chauffer's (Driver's) Salary (if paid or reimbursed by the employer)</p> <p>Less: Amount recovered from the employee (if any)</p>
(c) Motor car is used partly for official purpose & partly for personal purpose	<p>TVOP = [₹ 600 p.m. if engine capacity is \leq 1600cc (+) ₹ 900 p.m. if chauffer (driver) is also provided]</p> <p>[₹. 900 p.m. if engine capacity is > 1600cc (+) ₹ 900 p.m. if chauffer (driver) is also provided]</p> <p>Note: Amount (if any); recovered from the employee towards this perquisite shall be ignored.</p>



Part – III : Any other automotive owned by the employee

Expenses met by the Employer:	
(a) Automotive is used for official purpose only	Not Taxable (Note 1) i.e. TVOP = NIL
(b) Automotive is used for personal purpose only	TVOP = Actual expense met by the employer <u>Less: Amount recovered from the employee (if any)</u>
(c) Automotive is used partly for official purpose & partly for personal purpose	TVOP = Actual expenses employer <u>Less: Amount recovered employee (if any)</u> <u>Less: Exempt Amount</u> i.e. ₹. 900 p.m.

Note:

- (1) Conditions to be satisfied if the motor car or automotive is claimed to have been used for official purpose:
 - (a) Employer has maintained complete details of the journeys undertaken for official purpose like date of journey, destination, mileage, and the amount of expenditure incurred thereon (i.e. log book is maintained).
 - (b) Employer gives a certificate to the effect that the expenditure was incurred wholly & exclusively in performance of the official duties.

- (2) If the employee has been given the facility of more than one motor car (pool of cars):

Any one motor car	Taxable value of such motor car to be determined as if such motor car is used for partly official & partly personal purpose – [i.e. as per Part II (A) (c)]
Remaining motor cars	Taxable value of such motor cars to be determined as if such motor cars are used for personal purpose only – [i.e. as per Part II (A) (b)]

Conveyance facility provided by the employer to his employees to cover the journey between office and residence is not chargeable to tax i.e. its value is fully exempt from tax.

Provisioning of Domestic Servants - [Section 17(2)(iii) r.w. Rule 3(3)]

TVOP = Cost to the employer i.e. salary paid or payable by the employer or any other person on his behalf to the domestic servants

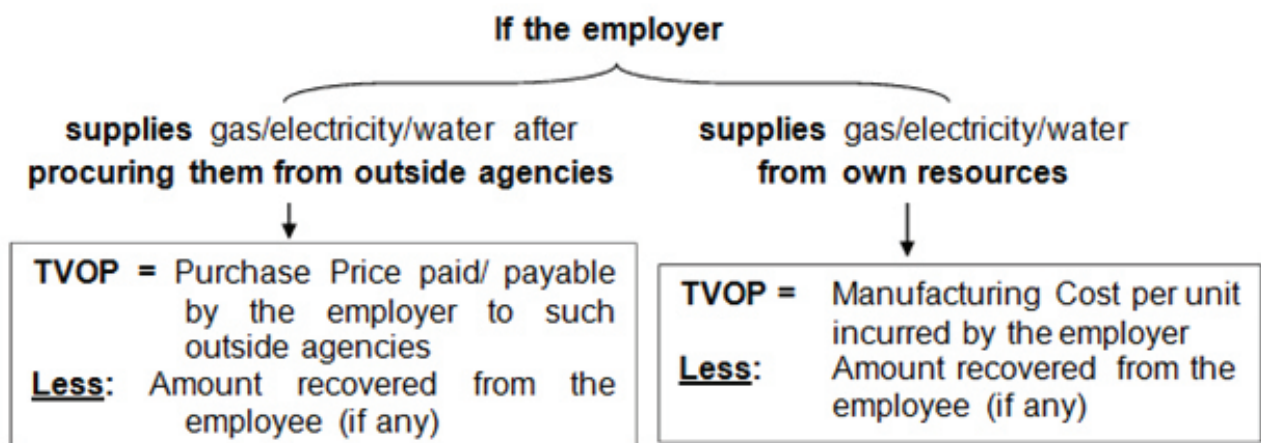
Less: Amount recovered from the employee for such facility (if any)

Note:

- (1) **Domestic Servants** = Gardener, Sweeper, Watchman, Personal Attendant etc.
- (2) If the employer, instead of providing the facility of domestic servants as above, **reimburses** the cost incurred by the employee for engaging the domestic servants then the amount of reimbursement by the employer to the employee shall be **fully taxable** in the hands of **all types of employees**.

If Domestic Servant Allowance is granted to the employee, then it will be **fully taxable**. It is taxable **even if the amount is actually used by the employee to engage domestic servants**.

Provisioning of Gas/Electricity/Water - [Section 17(2)(iii) r.w. Rule 3(4)]



Note:

If the employer, instead of providing the facility as above, reimburses the cost incurred by the employee on gas/electricity/water or makes the payment of gas/electricity/water bills, then, amount of such reimbursement or payment shall be fully taxable in the hands of all types of employees.

Free or Concessional Education Facility - [Section 17(2)(iii) r.w. Rule 3(5)]

Where the education facility is provided by the employer:

- (A) In an institution which is owned & maintained by the employer OR in an institution where the employer has arrangements:

- (a) **to the children of the employee:**

TVOP = Reasonable cost of education in a similar institute in or nearby the same locality
Less: Amount recovered from the employee (if any)

Note:

There would be no perquisite in the hands of the employee if such reasonable cost is upto ₹ 1,000 p.m.p.c. (i.e. not taxable if the value does not exceed ₹ 1,000 p.m. per child)
Therefore, if such reasonable cost exceeds ₹ 1,000 p.m.p.c. then the value in excess of ₹ 1,000 p.m.p.c. shall be treated as taxable value of this perquisite.

Alternatively, if such reasonable cost exceeds ₹ 1,000 p.m.p.c. then, whole of such reasonable cost shall be taxable.

Both the views expressed as above are correct, however, the students are advised to give a suitable note in the solution.

(b) **to any other member of the household of the employee:**

TVOP = Reasonable cost of education in a similar institute in or nearby the same locality

Less: Amount recovered from the employee (if any)

Note:

There would be no exemption with regard to the above benefit in the hands of the employee (i.e. the value of this benefit is fully taxable in the hands of the employee).

(B) **In any other institution:**

To any member of the household of the employee (including employee's children):

TVOP = Amount of expenditure actually incurred by the employer on education or Amount reimbursed by the employer (as the case may be)

Less: Amount recovered from the employee (if any)

Note:

There would be no exemption with regard to the above benefit in the hands of the employee (i.e. the value of this benefit is fully taxable in the hands of the employee).

Note:

- (1) **'Members of the household'** of the employee shall include employee's spouse, brother, sister, grandchildren, etc.
- (2) The amount of **scholarship** granted by the **employer to employee's** children is **fully exempt u/s 10(16)** in the hands of the employee i.e. not taxable.

- (3) The amount spent on **training** of employees or for **refresher management course** by the employer is **not taxable** in the hands of the employee.
- (4) Cost of **periodicals and journals** incurred by the employer, which is required by the employee for the discharge of official work **shall not be taxable** in the hands of the employee.

Free or Concessional Tickets (i.e. Transport Facility) - [Section 17(2)(iii) r.w. Rule 3(6)] The value of any benefit or amenity resulting from the provision by an **employer who is engaged in the carriage of passengers or goods**, to any employee or to any member of his household **for personal or private journey** free of cost or at concessional fare, in any conveyance owned, leased or made available by any other arrangement by such employer, **shall be taxable** in the hands of the employee.

TVOP = Value at which the employer offers such benefit to the general public

Less: Amount recovered from the employee (if any)

Note:

Nothing is chargeable to tax in the hands of employees of **Railways/Airlines** if such facility is provided to them by their employers i.e. the **TVOP in such cases shall be NIL**.

Obligation of the **Employee Met by the Employer - [Section 17(2)(iv)]**

TVOP = Amount paid by the employer in respect of any obligation which otherwise would have been payable by the employee

Note:

Any **tax borne by the employer on non-monetary perquisites of the employee** is a perquisite in the hands of the employee and the same is **fully exempt u/s 10(10CC)**.

Further, **as per the provisions of section 40(a)(v)**, this amount **shall not be allowed as deduction to the employer** while determining his income chargeable to tax under the head 'PGBP'.

Amount Payable by an Employer to effect an Assurance on the Life of the Employee or to effect a Contract of Annuity - [Section 17(2)(v)]

TVOP = Amount so payable by the employer directly or indirectly; to effect an assurance on the life of the employee or to effect a contract of annuity

Note:

Nothing would be taxable in the hands of the employee if the employer makes any contribution/payment towards the following:

- (1) Recognised Provident Fund (to the extent of 12% of employee's salary)
- (2) Statutory Provident Fund
- (3) Unrecognised Provident Fund
- (4) Approved Super Annuation Fund (upto ₹. 1,50,000 p.a.)
- (5) Deposit-linked insurance fund established under the Coal Mines Provident Fund or Employees' Provident Fund and Miscellaneous Provisions Act.
- (6) Group Annuity/Insurance Scheme
- (7) Employee State Insurance Scheme
- (8) Fidelity Guarantee Scheme

Specified Securities or Sweat Equity Shares allotted Free of Cost or at Concessional Price - [Section 17(2)(vi) r.w. Rule 3(8) & 3(9)]

The value of any specified security or sweat equity shares allotted or transferred, directly or indirectly, by the employer, or former employer, free of cost or at concessional price to the employee shall be taxable in the hands of such employee.

The taxable value of this benefit shall be computed in the following manner:

TVOP = FMV of such specified security or sweat equity shares **as on the date of exercise of option**

Less: Amount recovered from the employee (i.e. the exercise price)

Note:

- (1) Though the **taxable value** of this perquisite **is determined on the basis of FMV as on the date of exercise of option** by the employee, but the **value so determined shall be taxable only in the previous year in which such specified security or sweat equity shares were allotted to the employee.**
- (2) Further, as per the provisions of section 49(2AA), the cost of acquisition (COA) of such specified security or sweat equity shares shall be the FMV of such securities or sweat equity shares as on the date of exercise of option which has been taken into account for the purpose of valuation of perquisite u/s 17(2)(vi).

Other Prescribed Fringe Benefits or Amenities - [Section 17(2)(viii) r.w. Rule 3(7)(i) to (ix)]

Section 17(2)(viii) provides that the value of any other fringe benefit or amenity as may be prescribed shall be taxable in the hands of all employees.

Accordingly, following other fringe benefits or amenities are prescribed and the value thereof shall be determined in the manner provided under rule 3(7)(i) to (ix):

Interest-free Loans or Loans at Concessional Rate of Interest (i.e. Interest Benefit) - [Section 17(2)(viii) r.w. Rule 3(7)(i)]

The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan for any purpose made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be chargeable to tax in the hands of the employee.

The taxable value of this benefit shall be computed in the following manner:

Step 1	Calculate maximum monthly outstanding balance of loan as on the last day of each month.
Step 2	Ascertain the SBI's prime lending rates as on the 1st day of relevant previous year in respect of the same type of loan and calculate the amount of interest for each month of the previous year on the maximum monthly outstanding balance of loan by applying SBI's prime lending rates.
Step 3	Ascertain the actual rate of interest charged by the employer on such loan and calculate the actual amount of interest for each month of the previous year on the maximum monthly outstanding balance of loan by applying actual rate of interest.
Step 4	TVOP = Interest computed at Step 2 (-) Interest computed at Step 3

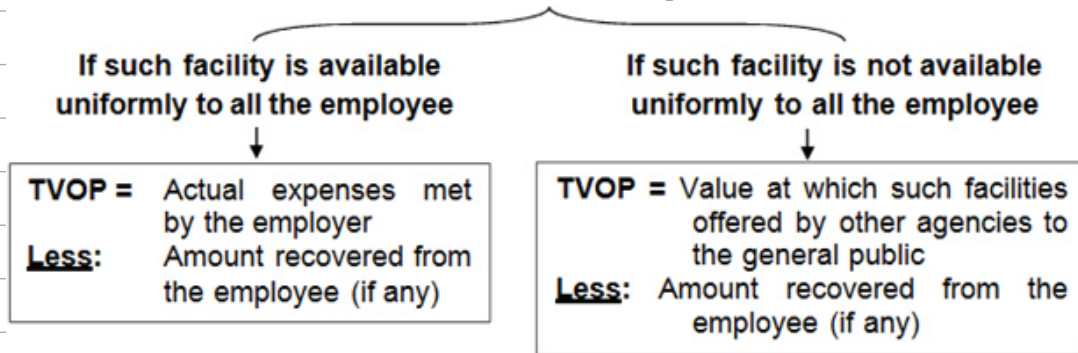
Note:

- (1) If the employee takes **loan upto ₹. 20,000 in aggregate during the previous year** from the employer, then interest benefit thereon shall not be taxable i.e. **TVOP shall be NIL.**
- (2) If the **loan is made available to the employee for the medical treatment of any diseases specified in Rule 3A (like cancer, tuberculosis, etc.),** then interest benefit on such loan shall not be taxable (this is irrespective of the amount of loan)
i.e. TVOP in such case shall be NIL.

However, if the **employee gets the reimbursement** in respect of such treatment under any medical insurance scheme/policy or from his employer, then, **interest benefit shall be calculated & shall also be charged to tax in respect of the amount of loan to the extent of such reimbursement.**

Travelling, Touring & Accommodation Facility - [Section 17(2)]

(viii) r.w. Rule 3(7)(ii)

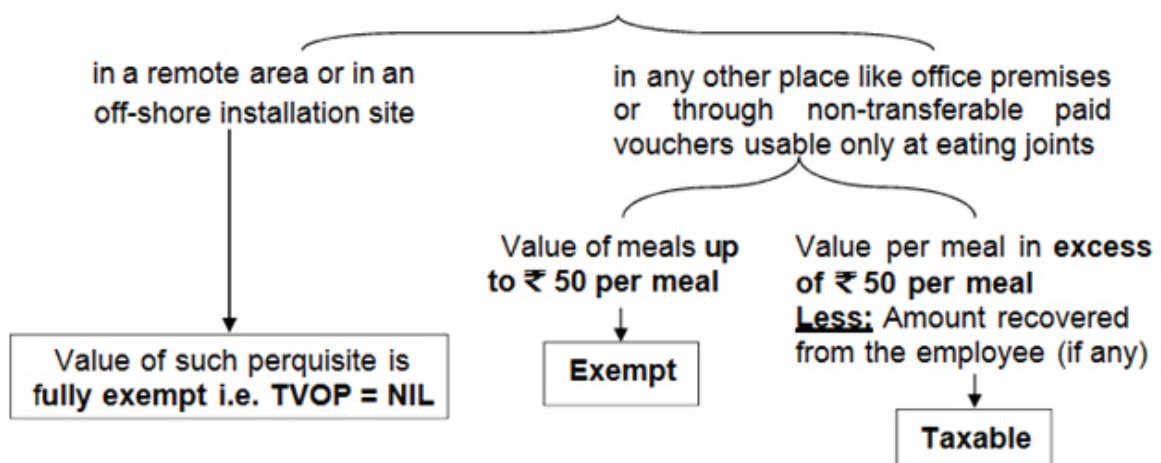


Note:

- (1) If the employee is on official tour and the employer incurs expenses on travelling, touring & accommodation for the employee as well as for any member of his household accompanying him, then, the amount of total expenditure incurred by the employer on such facility shall be taxable in the hands of the employee on a proportionate basis.
- (2) If the official tour is extended as a vacation, then, the value of benefit taxable in the hands of the employee shall be limited to the expenses incurred during such extended period of stay or vacation.
- (3) If the employee is on a personal tour along with members of his household and expenses on travelling, touring & accommodation are incurred by the employer or reimbursed by the employer to the employee, then, the benefit arising therefrom shall be fully taxable in the hands of the employee.

Free or Concessional Food and Non-Alcoholic Beverages - [Section 17(2)(viii) r.w. Rule 3(7)(iii)]

Meals or non-alcoholic beverages provided during working hours or extended working hours

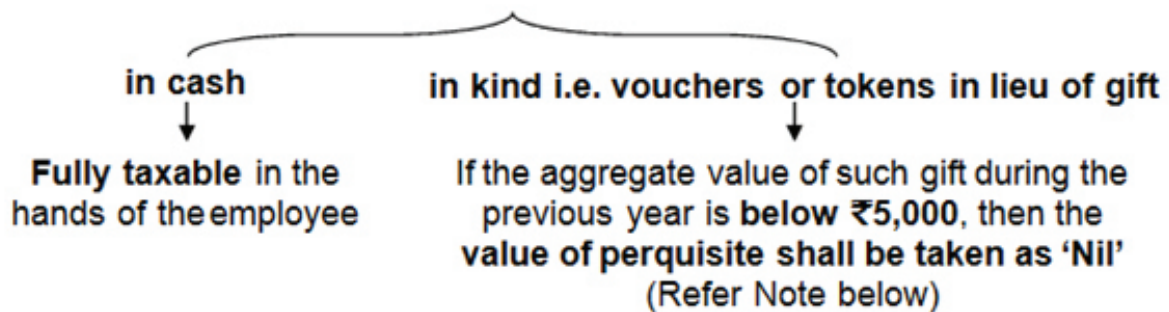


Note:

- (1) Refreshments (tea, coffee, snacks etc.) provided by the employer to the employees during working hours shall be **fully exempt** in the hands of the employee i.e. **TVOP = NIL**.
- (2) **Lunch/Dinner/Food Allowance** given by the employer to the employees shall be **fully taxable** in the hands of the employee.

Gift or Vouchers/Tokens in lieu of Gift - [Section 17(2)(viii) r.w. Rule 3(7)(iv)]

Gift received by the employee or any member of his household on any ceremonial occasions or otherwise from the employer



Note:

If the aggregate value of the gift in kind i.e. vouchers/tokens in lieu of gift during the previous year exceeds ₹ 5,000, then, the amount in **excess of ₹ 5,000** shall be **taxable** in the hands of the employee.

Alternatively, if the aggregate value of the gift in kind i.e. vouchers/tokens in lieu of gift during the previous year **exceeds ₹ 5,000**, then, the **whole of the amount** of gift may be **taxable** in the hands of the employee.

Both the views as expressed above are correct, however, the students are advised to give a suitable note in their solution.

Credit Card Expenses - [Section 17(2)(viii) r.w. Rule 3(7)(v)]

TVOP = Amount of expenses (including membership fees and annual fees) incurred by the employee or any member of his household, which is charged to a credit card (including any add-on-card) provided by the employer, or otherwise, paid for or reimbursed by such employer

Less: Expenses incurred wholly and exclusively for official purposes (Refer Note Below)

Less: Amount recovered from the employee (if any)

Note:

Complete details in respect of such expenditure is to be maintained by the employer which may include date & amount of expenditure, nature of expenditure etc. and the employer gives a certificate for such expenditure to the effect that the same was incurred wholly & exclusively for the performance of official duties.

Club Facility - [Section 17(2)(viii) r.w. Rule 3(7)(vi)]

TVOP = Any Payment or Reimbursement by the employer of any expenditure incurred (including the amount of annual or periodical fee) in a club by the employee or any member of employee's household

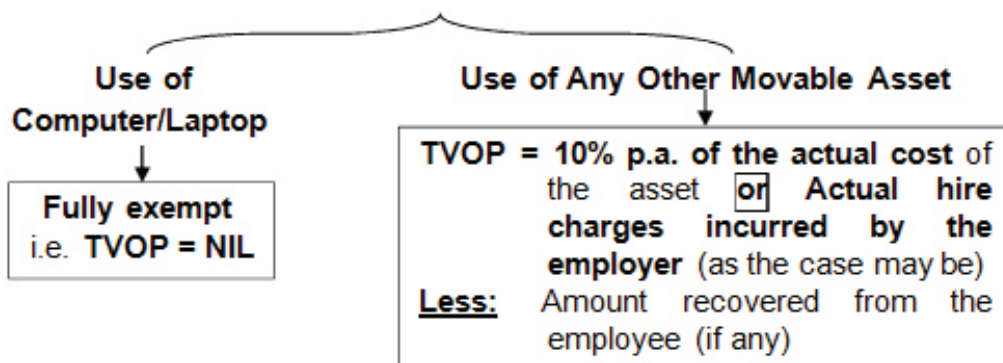
Less: Expenditure incurred wholly and exclusively for business purposes (**Refer Note 1**) **Less:** Amount recovered from the employee (if any)

Note:

- (1) Expenses on club facility used for official purpose is to be deducted only if the employer maintains complete details in respect of such expenditure and employer gives a certificate for such expenditure to the effect that the same was incurred wholly & exclusively for the performance of official duties.
- (2) There would be no perquisite for use of health club, sports and similar facilities provided uniformly to all employees by the employer.
- (3) Where the employer has obtained corporate membership of the club and the facility is enjoyed by the employee or any member of his household, the value of perquisite shall not include the initial fee paid for acquiring such corporate membership.

Use of Movable Assets - [Section 17(2)(viii) r.w. Rule 3(7)(vii)]

Value of perquisite for use of any movable asset belonging to the employer shall be determined as under:



Transfer (Sale) of Movable Assets - [Section 17(2)(viii) r.w. Rule 3(7)(viii)]

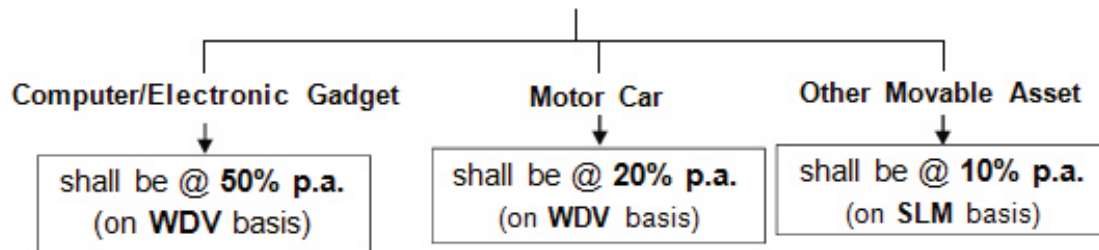
TVOP = Actual Cost of the Movable Asset to the Employer

Less: Deduction for normal wear & tear (i.e. depreciation) (Refer Note 1)

Less: Amount Recovered from the employee (i.e. Selling Price of the Movable Asset)

Note:

(1) **Normal wear & tear (i.e. depreciation) in case of movable asset being**



(2) Normal wear & tear (i.e. depreciation) is deductible only

(3) **for completed year of use**

of the asset by the employer in his business before its transfer/sale to the employee. Further, the amount towards normal wear & tear is to be reduced only if after purchasing the asset and before its transfer to the employee, the **employer has used such asset for the purpose of business/profession.**

(4) **'Electronic Gadgets'** means data storage & handling devices like computers, laptops, mobile phones, digital diaries, printers, fax, EPBAX machines etc.

Household appliances (i.e. white goods) like fridge, air conditioner, washing machine, microwave oven, mixer grinder etc. are not treated as electronic gadgets.

(5) Transfer without consideration of movable asset (other than computers, electronic gadgets and motor cars) by the employer after using it for 10 years or more **shall not be treated as a perquisite in the hands of the employee.**

Any Other Benefit/Amenity/Service/Right/Privilege - [Section 17(2)(viii) r.w. Rule 3(7)(ix)]

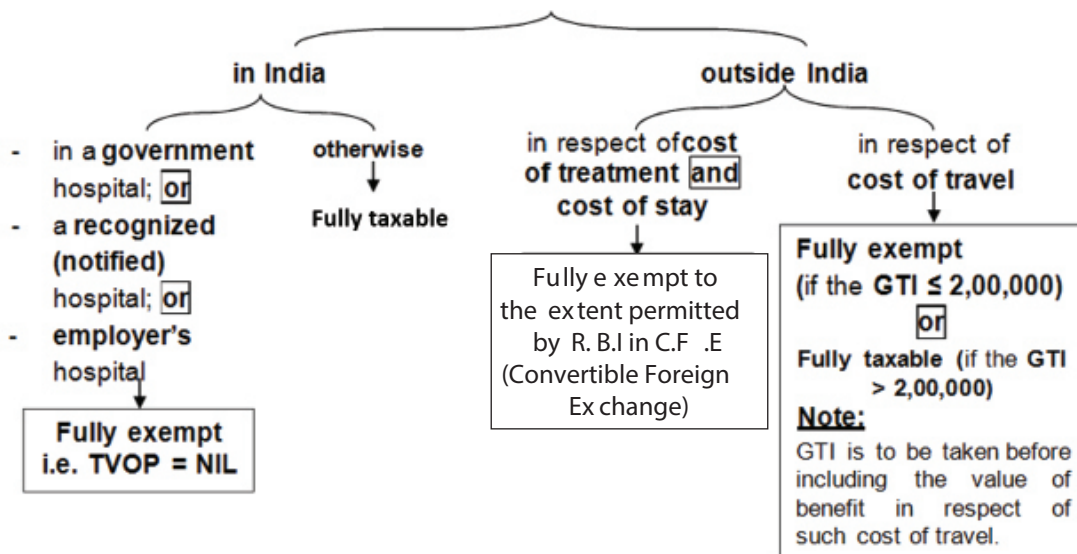
TVOP = Cost to the employer under arm's length transaction

Less: Amount recovered from the employee (if any)

Note:

There will be no taxable perquisite in respect of expenses on telephones including mobile phone actually incurred on behalf of the employee by the employer i.e. if an employer pays or reimburses telephone bills or mobile phone charges of employee, there will be no taxable perquisite i.e. **TVOP in such case shall be taken to be NIL.**

Medical Facility or Reimbursement of Medical Expenses - [Proviso to Section 17(2)] Medical facility or reimbursement of medical expenses for treatment of any patient done



Note:

- (1) The term '**hospital**' includes nursing home, clinic, dispensary etc.
- (2) '**Patient**' for the purpose of this perquisite shall be the employee himself/herself, employee's spouse, children, dependent brother, sister & parents.
However, if the employer grants **such benefit for any person other than specified above** then, the same shall be **fully taxable** in the hands of the employee.
- (3) **Cost of stay & Cost travel** met by the employer or reimbursed by the employer shall be exempted in the manner prescribed as above for the **patient plus one attendant**.
- (4) **Any premium on medical insurance policy** of the employee or any of his family members paid or reimbursed by the employer, shall be **fully exempt** in the hands of the employee.
Further, the employee **cannot claim deduction u/s 80D** in respect of such premium out of his gross total income.
Family members for the purpose of this benefit shall include employee's spouse, children, dependent brother, sister & parents.
- (5) *Payment of premium on personal accident insurance/group mediclaim insurance policies:*

An employer takes personal accident insurance/group insurance policies on the lives of employees and pays premium thereon.

In such case, no immediate benefit becomes payable to the employee but such benefit normally accrues at a future date only if certain events take place. Moreover,

the employers take such policies in their business interest only, so as to indemnify themselves from payment of any compensation.

Therefore, the premium so paid by the employer on such policies **shall not constitute a taxable perquisite in the hands of the employees.**

(6) **Life insurance premium** of the employee or any of the family member of the employee paid by the employer shall be **fully taxable** in the hands of the employee. Further, the employee **can also claim deduction u/s 80C** in respect of such premium out of his gross total income subject to certain conditions.

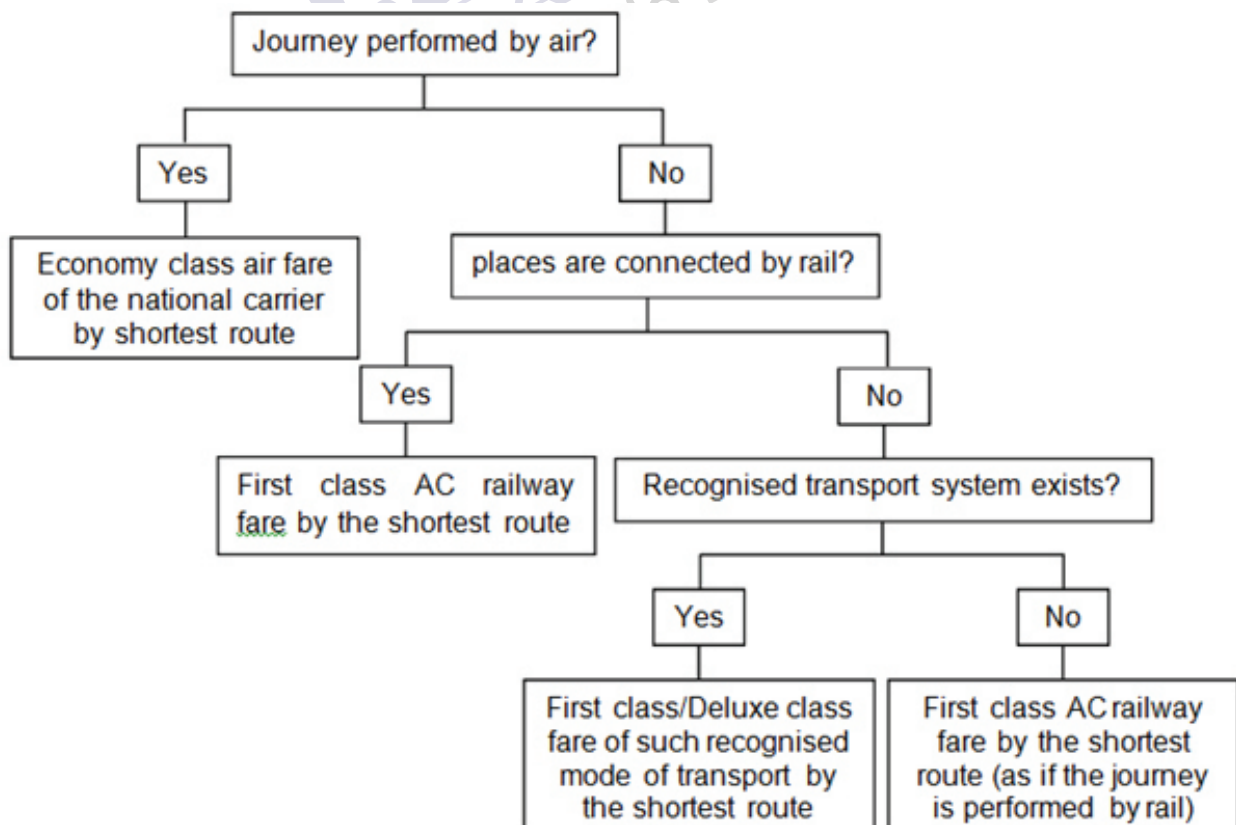
(7) Medical Allowance granted to the employee by the employer shall be fully taxable

Leave Travel Concession/Assistance/Facility - [LTC/LTA]

An amount/assistance/facility provided by the employer to the **employees and his family members** in connection with his proceeding on leave to any **place in or outside India**, before or after retirement/termination from the service is known as LTC/LTA.

This benefit is exempt in the hands of the employee **u/s 10(5) r.w. Rule 2B** provided it is given in respect of any journey performed in India.

The amount of exemption u/s 10(5) shall be determined in the following manner:



However, the amounts as prescribed above shall be restricted to the **extent of amount actually spent by the employee** i.e. the amount of exemption u/s 10(5) cannot exceed the amount spent actually by the employee on such journey.

Note:

- (1) Expenses reimbursed by the employer **other than fare (like boarding/lodging etc.) is fully taxable.**
- (2) If the **LTC/LTA is given for a journey performed outside India**, then the benefit arising therefrom shall not be exempted u/s 10(5) i.e. **such benefit is fully taxable** in the hands of the employee.
- (3) **Family** for the purpose of LTC/LTA exemption shall be:
 - **Spouse** of the employee;
 - **Children** of the employee (including a step child or an adopted child); and
 - **Dependent - Brothers, Sisters & Parents** of the employee.
- (4) Exemption u/s 10(5) is allowed in respect of **maximum 2 children born at any time on or after 01-10-1998.**

For children born prior to 01-10-1998, there is no such restriction.

However, **multiple births after the first child will be considered as a single child.**

- (5) Further, the exemption u/s 10(5) shall be available in respect of **2 LTAs/LTCs in the block of 4 calendar years commencing from the calendar year 1986.**

Where such LTC/LTA is not availed by the individual during any block of 4 calendar years, **one such unavailed LTC/LTA shall be carried over to the immediately succeeding block** and shall be eligible for exemption in such next block.

However, this carried over LTC/LTA needs to be **availed in the first calendar year of the next block itself or else the same shall lapse.**

The now block of 4 years would be [22,23,24,25].

- (i) Because of Covid pandemic from 12-10-20 to 31-3-21 whatever L.T.A. / L.T.C. amount is received from employer, it will be reduced by “specified expenditure” incurred by employee, and balance will be taxable.
- (ii) Specified expenditure means amount spent by employees for procurement of goods / services (liable for G.S.T. @12% or more), by way of A/c payee cheque etc.
- (iii) The amount of expenditure to be deducted from L.T.A. received is least of:
 - (i) 1/3rd of total specified expenditureOr
 - (ii) Maximum of 36,000 per person

Profits in Lieu of Salary - [Section 17(3)]

Profits in lieu of salary means payments made to an employee in lieu of or in addition to the salary. These are as follows:

(1) Compensation for loss of employment or modification of the employment terms of employment:

Compensation for loss of employment or modification of terms of employment is generally treated as a capital receipt. But by virtue of section 17(3), any compensation due to or received by an assessee from his employer or former employer at or in connection with the termination of his employment or modification of terms of employment is taxable as profit in lieu of salary. It is taxable on "due" or "receipt" whichever is earlier basis.

Note:

It is to be noted that merely because a payment is made by an employer to a person who is his employee does not automatically fall within the scope of the above provisions. 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.

(2) 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 [exempted u/s 10(10)]
- Pension [exempted u/s 10(10A)]
- Compensation received by a workman under the Industrial Disputes Act, 1947 [exempted u/s 10(10B)]
- Lumpsum from statutory provident fund or public provident fund [exempted u/s 10(11)]
- Lumpsum from recognized provident fund [exempted u/s 10(12)]
- Lumpsum from approved superannuation fund [exempted u/s 10(13)]
- to the extent to which it does not consist of employee's contributions or interest on such contributions.

Note:

If any sum is paid to an employee at the time of maturity from an unrecognised provident fund (UPF) it is to be dealt with as follows:

- (a) that part of the sum which represents the employer's contribution to UPF and interest thereon is taxable under the head 'Salaries'.

(b) that part of the sum which represents employee's contribution to UPF and interest thereon is not chargeable to tax again because the same have already been taxed under the head 'Salaries' and 'Other Sources' respectively.

(3) Payment under Keyman Insurance Policy:

Any sum received by the assessee under the keyman insurance policy (including the sum allocated by way of bonus on such policy) is taxable as 'profits in lieu of salary' under the head 'Salaries' if the same is not taxable under the head 'PGBP' or 'Other Sources'.

(4) Lumpsum Payment or Otherwise:

Any amount, whether in lumpsum 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.

shall be taxable as 'profits in lieu of salary' under the head 'Salaries'

CLASSWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Mr Narendra Modi of Mumbai is employed in XYZ Ltd since 2010. For the Previous year 2023-2024 he had following salary particulars

Basic Salary – ₹ 45,000pm

Dearness allowance (entering into retirement benefits) – ₹ 3,000pm Dearness allowance (not entering into retirement benefits) – ₹ 2,000pm Bonus due – 85,000.

Commission based on percentage of turnover – ₹ 40,000 Commission based on percentage of Net Profit – ₹ 50,000

Uniform allowance – ₹ 2,500pm (Actual expenses on purchase of uniform amounts to ₹ 22,500)

Children Education Allowance – ₹ 240pm for 3 children (Actual Expenses on Education Amounts to ₹ 40,000)

Transport Allowance – ₹ 2,100pm. (Actual expenses on commutation amounts to ₹ 10,000) House Rent Allowance received – ₹ 20,000pm (Rent paid ₹ 23,000pm)

Project Allowance ₹ 2,000pm (Actual Expenses amounts to ₹ 15,000)

Entertainment Allowance ₹ 700pm (Actual Expenses on entertaining office visitors ₹ 12,000)

Professional Tax paid during PY 2023 – 2024 For PY 2022 – 2023 – ₹ 3,000

For PY 2023 – 2024 – ₹ 2,000

Compute income from salary for PY 2023 – 2024.

Question 2

Mr. Sai, an employee furnished the following particulars for the previous year ending 31.3.2024

		₹
(a)	Salary income as computed (after all deduction) for the year	6,70,000
(b)	During the year arrears of salary were received (not included in the above) which relate to financial year 2011-12	90,000
(c)	Assessed income of financial year 2011-12	4,85,000

You are requested to compute relief u/s 89 in terms of tax payable. The rates for the Assessment Year 2012-13 are:

0 - 1,80,000	NIL
1,80,001 to 5,00,000	10%
5,00,001 to 8,00,000	20%
Above Rs. 8,00,000	30%

Surcharge NIL, Education cess 3%.

Question 3

Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the P.Y. 2023-24:

Medical premium paid for insuring health of Mr. G	7,000
Treatment of Mr. G by his family doctor	5,000
Treatment of Mrs. G in a Government hospital	25,000
Treatment of Mr. G's grandfather in a private clinic	12,000
Treatment of Mr. G's mother (68 years and dependant) by family doctor	8,000
Treatment of Mr. G's sister (dependant) in a nursing home	3,000
Treatment of Mr. G's brother (independent)	6,000
Treatment of Mr. G's father (75 years and dependant) abroad	50,000
Expenses of staying abroad of the patient and	30,000
Limit specified by RBI	75,000

Question 4

Mr. Mohit is employed with XY Ltd. on a basic salary of ₹ 10,000 p.m. He is also entitled to dearness allowance @ 100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹ 6,000 p.m. which was increased to ₹ 7,000 p.m. with effect from 1.01.2024. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 01.02.2024. Rent paid by him during the previous year 2023-24 is as under:

April and May, 2023	-	Nil, as he stayed with his parents
June to October, 2023	-	₹ 6,000 p.m. for an accommodation in Ghaziabad
November, 2023 to March, 2024	-	₹ 8,000 p.m. for an accommodation in Delhi.

Compute his gross salary for assessment year 2024-25.

Question 5

Mr. Sagar retired on 01.10.2023 receiving ₹ 5,000 p.m. as pension. On 1.2.2024, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

- (a) He is a government employee.
- (b) He is a non-government employee, receiving gratuity of ₹ 5,00,000 at the time of retirement.
- (c) He is a non-government employee and is not in receipt of gratuity at the time of retirement.

Question 6

Mr. Ravi retired on 15.06.2023 after completion of 26 years 8 months of service and received gratuity of ₹ 6,00,000. At the time of retirement, his salary was:

Basic Salary	: ₹ 5,000 p.m.
Dearness Allowance	: ₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission	: 1% of turnover (turnover in the last 12 months was ₹12,00,000)
Bonus	: ₹ 12,000 p.a.

Compute his taxable gratuity assuming:

- (a) He is non-government employee and covered by the Payment of Gratuity Act 1972.
- (b) He is non-government employee and not covered by Payment of Gratuity Act 1972.
- (c) He is a Government employee

Question 7

Mr. Gupta retired on 01.12.2023 after 20 years 10 months of service, receiving leave salary of ₹ 5,00,000. Other details of his salary income are:

Basic Salary	: ₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 01.04.2023)
Dearness Allowance	: ₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission	: ₹ 500 p.m.
Bonus	: ₹ 1,000 p.m.
Leave availed during service	: 480 days (480/ 30 days of a month i.e. 16 mths availed)

He was entitled to 40 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.

Question 8

Mr. Garg received retrenchment compensation of ₹ 10,00,000 after 30 years 4 months of service. At the time of retrenchment, he was drawing basic salary ₹ 20,000 p.m.; dearness allowance ₹ 5,000 p.m. Compute his taxable retrenchment compensation.

Question 9

Mr. Dutta received voluntary retirement compensation of ₹ 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 ₹ 20,000 p.m.; Dearness allowance (which forms part of pay) ₹ 5,000 p.m. Compute his taxable voluntary retirement compensation, assuming that he does not claim any relief under section 89.

Question 10

From the following details, find out the salary chargeable to tax for the A.Y. 2024-25:
Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 01.01.2023 in the scale of ₹ 20,000 - ₹ 1,000 - ₹ 30,000. He is paid 10% D.A. & Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount.

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

- (i) Facility of laptop costing ₹ 50,000.
- (ii) Company reimbursed the medical treatment bill of his brother of ₹ 25,000, who is dependent on him.
- (iii) The monthly salary of ₹ 1,000 of a house keeper is reimbursed by the company.
- (iv) A gift voucher of ₹ 10,000 on the occasion of his marriage anniversary.
- (v) Conveyance allowance of ₹ 1,000 per month is given by the company towards actual reimbursement.
- (vi) He is provided personal accident policy for which premium of ₹ 5,000 is paid by the company.
- (vii) He is getting telephone allowance @ ₹ 500 per month.
- (viii) Company pays medical insurance premium of his family of ₹ 10,000

Question 11

Mr. X retired from the services of M/s Y Ltd. on 31.01.2024, after completing service of 30 years and one month. He had joined the company on 1.1.1990 at the age of 30 years and received the following on his retirement:

- (i) Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.
- (ii) Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
- (iii) As per the scheme of the company, has was offered a car which was purchased on 30.01.2020 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from his for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
- (iv) An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.
- (v) Company presented him a gift voucher worth ₹ 6,000 on his retirement.
- (vi) His colleagues also gifted him a Television (LCD) worth ₹ 50,000 from their own contribution.

Following are the other particulars:

- (i) He has drawn a basic salary of ₹ 20,000 and 50% dearness allowance per month for the period from 01.04.2023 to 31.01.2024.
- (ii) Received pension of ₹ 5,000 per month for the period 01.02.2024 to 31.03.2024 after commutation of pension.

Compute his gross total income from the above for Assessment Year 2024-25.

CLASSWORK SOLUTIONS

Answer 2

Mr Sai

Computation of relief under section 89 for A.Y 2024-25

Particulars	Amount (₹)
Step 1: Actual income for PY 23-24	6,70,000
Add: Arrears of salary for PY 11-12	90,000
TOTAL INCOME	7,60,000
Basic tax (as per slab rates for AY 24-25)	64,500
Add: Health & Education cess @ 4%	2,580
Tax at (A)	67,080
Step 2: Actual income for PY 2023-24	6,70,000
Basic tax (as per slab rates for AY 24-25)	46,500
Add: Health & Education cess @ 4%	1,860
Tax at (B)	48,360
Step 3: Tax at (A) - Tax at (B) (C)	18,720
Step 4: Actual income for PY 11-12	4,85,000
Add: Arrears of salary for PY 11-12	90,000
TOTAL INCOME	5,75,000
Basic tax (as per slab rates for AY 12-13)	47,000
Add: Education cess @ 3%	1,410
Tax at (D)	48,410
Step 5: Actual income for PY 11-12	4,85,000
Basic tax (as per slab rates for A.Y. 12-13)	30,500
Add : Education Cess @ 3%	915
Tax at (E)	31,415
Step 6: Tax at (D) - Tax at (E) (F)	16,995
Step 7: Relief u/s. 89	1,725
If C > F, Relief = C - F [18,720 (-) 16,995]	
If C < = F, Relief = NIL	

COMPUTATION OF TAX PAYABLE FOR A.Y. 2024-25

Total income(including arrears)	₹ 7,60,000
Basic Tax	₹ 64,500
Add: Health & Education cess @ 4%	₹ 2,580
	₹ 67,080
Less: Relief u/s 89	(₹ 1,725)
TAX PAYABLE	₹ 65,355

Answer 5

(a) He is a government employee.

Uncommuted pension received (October – March)		₹ 24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹ 3,00,000	
Less : Exempt u/s 10(10A)	₹ 3,00,000	NIL
Taxable pension		₹ 24,000

(b) He is non - government employee, receiving gratuity ₹ 5,00,000 at the time of retirement.

Uncommuted pension received (October – March)		₹ 24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		₹ 3,00,000
Commuted pension received		
Less: Exempt u/s 10(10A)		
$\left\{ \frac{1}{3} \times \frac{₹ 3,00,000}{60\%} \right\} \times 100\%$	₹ 1,66,667	₹ 1,33,333
Taxable pension		₹ 1,57,333

(c) He is a non-government employee and is not in receipt of gratuity at the time of retirement.

Uncommuted pension received (October – March)		₹ 24,000
Commuted pension received		₹ 3,00,000
Less: Exempt u/s 10(10A)		
$\left\{ \frac{1}{2} \times \frac{₹ 3,00,000}{60\%} \right\} \times 100\%$	₹ 2,50,000	₹ 50,000
Taxable pension		₹ 74,000

Answer 8

Retrenchment compensation received	₹ 10,00,000
Less : Exemption under section 10(10B)	₹ 4,32,692
Taxable retrenchment compensation	₹ 5,67,308

Note: Exemption is to the extent of least of the following:

(i) Compensation actually received	₹ 10,00,000
(ii) Statutory Limit	₹ 5,00,000
(iii) Amount calculated in accordance with provisions of the Industrial Disputes Act, 1947	
$= \frac{15}{26} \times \left[\frac{(20,000 \times 3) + (5,000 \times 3)}{3} \right] \times 30 \text{ years}$	₹ 4,32,692

Answer 10

Computation of taxable salary of Mr. X for A.Y. 2024-25

Particulars	₹
Basic pay [(₹ 20,000 × 9) + (₹ 21,000 × 3)] = ₹ 1,80,000 + ₹ 63,000	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus	21,000
Employer's contribution to Recognized Provident Fund in excess of 12% (15% - 12% = 3% of ₹ 2,67,300) [See Note 1 below]	8,019
Taxable allowances	
Particulars	₹
Telephone allowance	6,000
Taxable perquisites	
Rent-free accommodation [See Note 1 & 2 below]	44,145
Medical reimbursement	25,000
Reimbursement of salary of housekeeper	12,000
Gift voucher [See Note 6 below]	10,000
Gross Salary	3,93,464
Less Standard Deduction u/s 16(ia)	(50,000)
Salary Chargeable to Tax	3,43,464

Notes:

1. It has been assumed that dearness allowance forms part of salary for retirement benefits and accordingly, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been worked out.

2. Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

For the purposes of valuation of rent free house, salary includes:

(i) Basic salary i.e., ₹ 2,43,000

(ii) Dearness allowance (assuming that it is included for calculating retirement benefits) i.e. ₹ 24,300

(iii) Bonus i.e., ₹ 21,000

(iv) Telephone allowance i.e., ₹ 6,000 Therefore, salary works out to

₹ 2,43,000 + ₹ 24,300 + ₹ 21,000 + ₹ 6,000 = ₹ 2,94,300.

15% of salary = ₹ 2,94,300 × 15/100 = ₹ 44,145

Value of rent-free house = Lower of rent paid by the employer (i.e. ₹ 1,20,000) or 15% of salary (i.e., ₹ 44,145).

Therefore, the perquisite value is ₹ 44,145.

3. Facility of use of laptop is not a taxable perquisite.

4. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.

5. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.

Note - An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000.

6. Premium of ₹ 5,000 paid by the company for personal accident policy is not liable to tax.

HOMEWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2023-24:

	Particulars	₹
1.	Reimbursement of following medical expenses incurred by Ms. Rakhi	
	(A) On treatment on her self-employed daughter in a private clinic	4,000
	(B) On treatment of herself by family doctor	8,000
	(C) On treatment of her mother-in-law dependent on her, in a nursing home	5,000
2.	Payment of premium on Mediclaim Policy taken on her health	7,500
3.	Medical Allowance	2,000p.m
4.	Medical expenses reimbursed on her son's treatment in a government hospital	5,000
5.	Expenses incurred by company on the treatment of her minor son abroad	1,05,000
6.	Expenses in relation to foreign stay of Rakhi and her son abroad for medical treatment (Limit of foreign exchange prescribed by RBI for this is ₹ 2,00,000)	1,20,000

Examine the taxability of the above benefits and allowances in the hands of Rakhi.

Question 2

Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2024:

- (i) Basic salary upto 31.10.2023 ₹ 50,000 p.m. Basic salary from 01.11.2023 ₹ 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.
- (iv) Contribution of employer to recognized provident fund account of the employer @ 16% of basic salary.
- (v) Profession tax paid ₹ 2,500 of which ₹ 2000 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 litres) provided to the employee from 01.11.2023 meant for both official and personal use. Repair and running expenses of ₹ 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 assessment year 2024-25.

Question 3

Mr. Vishnu is in receipt of the following allowances[®] from his employer M/s Exceptional Transport Co. Ltd. He seeks your advice about the taxable quantum of these allowances:

- (1) Helper Allowance ₹ 500 p.m. He had appointed a helper for 10 months during the P.Y. to whom he paid ₹ 250 p.m.
- (2) Conveyance Allowance of ₹ 950 p.m. He owns a car which is used both for personal and official purposes. Total monthly expenses incurred on this car amounts to ₹ 1,200 of which 40% is attributable to office use.
- (3) During the year he received for his 3 children a sum of ₹ 450 p.m., each towards Education and Hostel Expenditure. All his children are staying in a hostel in Shimla.
- (4) He also received ₹ 9,000 p.m. as special allowance to meet his personal expenses in the course of running the transport conveyance of the employer from one place to another.
- (5) Uniform Allowance of ₹ 1,500 p.m. Actual expenses amount to ₹ 20000.

Question 4

Compute the amount of taxable house rent allowance in the hands of Mr. Murthy from the following details:

Basic Salary - ₹ 3,00,000 p.a.; Dearness Allowance (provided in terms of employment) - ₹ 60,000 p.a.; House Rent Allowance - ₹ 60,000 p.a. (Rent paid by him - ₹ 45,000 p.a. in Nasik); Commission on Turnover @ 2.5% (Turnover achieved by him - ₹ 10,00,000). Advance Salary for the month of April, 2024 amounting to ₹ 25,000 is also received during the P.Y. 2023-24.

Question 5

Mr. Chirkut is employed by M/s Asha Ltd. (Delhi) up to November 30, 2023. He derives following monthly payments from M/s Asha Ltd.:

	Till 31/05/23	From 01/06/2023
Basic Salary	40,000	50,000
Dearness Allowance @ 30% of Basic Salary (60% of Dearness Allowance forming part of salary for computing all retirement benefits)	12,000	15,000
Dearness Allowance (not forming part of salary for computing retirement benefits)	80,000	90,000
Commission	30,000	40,000
House Rent Allowance	20,000	35,000

With effect from 01-12-2023, he joins M/s Nirasha Ltd. (Amritsar). He derives Basic Salary of ₹ 1,00,000 p.m. from M/s Nirasha Ltd. Besides, he also gets Dearness Allowance @ ₹ 80,000 p.m. (5% of which forms part of salary for computing all retirement benefits) and HRA @ ₹ 60,000 p.m. He also gets commission of ₹ 45,000 p.m.

Rent paid p.m. by Mr. Chirkut is as follows:

	Delhi ₹	Amritsar ₹
From January 1, 2023 to July 31, 2023	5,000	-----
August 1, 2023 to December 31, 2023	29,000	-----
January, 2024	-----	10,000
February 1, 2024 to June 30, 2024	-----	60,000

Determine the taxable House Rent Allowance in the hands of Mr. Chirkut.

Question 6

Mr. Timberlake, an employee of M/s Hollywood Ltd., receives ₹ 2,50,000 as gratuity. He is covered by the Payment of Gratuity Act, 1972. He retires on December 12, 2023 after rendering service of 38 years and 8 months. At the time of retirement his monthly Basic Salary and Dearness Allowance was ₹ 7,500 and ₹ 1,500, respectively. Is the entire amount of gratuity exempt from tax?

Will your answer be different if he was not covered by Payment of Gratuity Act, 1972?

Question 7

Mr. Ching Lee, a marketing specialist of Mumbai, retired from A Co. Ltd. on November 30, 2007 and received ₹ 2,22,000 gratuity out of which ₹ 2,20,000 was exempted u/s 10(10). Thereafter, he joined B Co. Ltd. During the P.Y. 2023-24 he now retires from B Co. Ltd. on March 1, 2024 after 15 years and 3 months of service and receives ₹ 4,50,000 as gratuity from B Co. Ltd. (Assume that he is not covered by the Payment of Gratuity Act, 1972).

His Average Basic Salary drawn from B Co. Ltd. for the preceding 10 months ending on February 28, 2024 is ₹ 21,200 p.m.

Besides, he has received ₹ 2,000 p.m. as Dearness Allowance (80% of which forms part of salary for the purpose of computation of all retirement benefits) and 6% commission on turnover achieved by him (total turnover achieved by him during 10 months ending on February 28, 2024 is ₹ 2,50,000).

Determine the amount of gratuity exempt u/s 10(10) in the hands of Mr. Ching Lee for the A.Y. 2024-25.

Question 8

(a) Mrs. Sharma retired from M/s Ki & Ka Ltd. on 31-08-2023. She was paid a pension of ₹ 5,000 p.m. On 01-01-2024, she commuted 60% of the pension and received ₹ 72,000. Compute the amount of pension taxable in her hands if she is also in receipt of gratuity.

(b) In point no. (a) above, would your answer be different if Mrs. Sharma is not in receipt of gratuity?

(c) In point no. (a) above, would your answer be different if Mrs. Sharma retires from the services of Central Government instead of Ki & Ka Ltd.?

Question 9

Mr. Dev, an employee of M/s ABC Ltd., receives ₹ 36,000 as leave salary at the time of retirement on 31-01-2024. On the basis of following information, determine the amount of taxable leave salary:

Basic Salary - ₹ 3,000 p.m. since 2017; duration of service - 22 years and 8 months; leave to his credit at the time of retirement is 12 months on the basis of 1½ months entitlement of leave for each completed year of service.

If leave to his credit at the time of retirement is 9 months then what would have been your answer.

Further, what would have been your answer if Mr. Dev was the employee of Rajasthan State Government?

Question 10

Mr. Kalicharan submits the following information:

Basic Salary: ₹1,20,000; Dearness Allowance: ₹ 40,000 (46 per cent of which is part of salary for retirement benefits); Commission: ₹ 6,000 (i.e. 1 per cent of ₹ 6,00,000, being turnover achieved by him) and Children Education Allowance for his 2 children: ₹ 7,200. The employer contributes ₹ 20,000 towards provident fund to which a matching contribution is made by Mr. Kalicharan. Interest credited in the provident fund account @ 11% comes to ₹ 93,500. Other Incomes taxable under other Heads is ₹ 2,00,000. Find out the net taxable income for Mr. Kalicharan if the provident fund is (a) SPF (b) RPF (c) UPF.

Question 11

Mr. Aloknath is employed with M/s Babuji Ltd. and is paid the following emoluments: Basic Salary - ₹ 25,000 p.m.; D.A. (not provided in the terms of employment) - ₹ 7,250 p.m. and Travel Allowance - ₹ 3,000 p.m. 60% of the Travel Allowance is not spent and the balance is spent for office purpose; Commission - ₹ 2,500 p.m.; Entertainment Allowance - ₹ 2,500 p.m.; Uniform Allowance - ₹ 2,100 p.m. (actual expenditure is ₹ 19,200); Tribal Area Allowance - ₹ 8,400 p.a. Bonus declared during the year is 25,000. Professional Tax of ₹ 2,000 is paid by the company on behalf of Mr. Aloknath. During the P.Y. 2023-24, he draws salary of April & May, 2024 (i.e. ₹ 50,000) in advance. He is also provided a rent-free furnished accommodation at Jaipur (Population 38 lakhs). Original cost of furniture provided in the house ₹ 50,000 (W.D.V. is ₹ 9,000) & Hire charges ₹ 1,250 p.m. for hired furniture provided. Calculate the taxable value of perquisite along with salary taxable the hands of Mr. Aloknath.

Would your answer change if the employer recovers ₹ 2,500 p.m. towards such accommodation from Mr. Aloknath?

Question 12

Mrs. Pradhan is offered an employment by M/s Mantri Ltd. at a Basic Salary of ₹ 24,000 p.m. Other allowances according to rules of the company are:

Dearness Allowance (not forming part of salary for calculating retirement benefits) @ 18% of Basic Salary; Project Allowance @ 6 % of Basic Salary.

Bonus @ 1 month's Basic Salary;

The company gives Mrs. Pradhan an option either to take a Rent Free Unfurnished Accommodation at Pune (population above 25 lakh) for which the company would directly bear the rent of ₹ 15,000 p.m. or to accept a House Rent Allowance of ₹ 15,000 p.m. and find out own accommodation.

If Mrs. Pradhan opts for House Rent Allowance, she will have to pay a rent of ₹ 15,000 p.m. for an unfurnished house.

Which of the two options should be opted by Mrs. Pradhan in order to minimise her tax bill?

Her income from other sources is ₹ 1,70,000.

Question 13

Find out the taxable value of the perquisite in respect of car in the following different situations:

- (1) Mr. X is employed by a company. He has been provided a car (1200cc) owned by the employer, cost of the car is ₹ 4,26,000. The expenditure incurred by the company on maintenance of the car:
Petrol: ₹ 46,000, Driver: ₹ 36,000 and Maintenance: ₹ 10,000. The car can be used by Mr. X partly for official purposes and partly for private purposes. A sum of ₹ 12,000 is recovered from Mr. X.
- (2) Would your answer be different if in Situation 1 (above), the car is used only for private purposes?
- (3) A car (1800cc) is owned by the employer (cost of the car being ₹ 4,80,000). Mr. X, an employee, can use it partly for official purposes and partly for private purposes. Expenses for private purposes are, however, incurred by Mr. X. The total expenditure incurred by Mr. X is ₹ 50,000 on car and ₹ 20,000 on driver.
- (4) Would your answer be different if in Situation 3 (above), the car is used only for private purposes?
- (5) Mr. X owns a car (1400cc). He uses it partly for official purposes and partly for private purposes? During the P.Y. 2023-24, he incurs a sum of ₹ 40,000 on running and maintenance of the car. Besides, he has engaged a driver (salary ₹ 24,000). The employer reimburses the entire expenditure of ₹ 64,000. Logbook of the car is not maintained.
- (6) Would your answer be different if in Situation 5 (above), the logbook of the car is maintained and 70% of the expenditure is attributable towards the official use of the car? The employer to this effect gives a certificate also.
- (7) A car (1700cc) is owned by the employer. All expenses (₹ 56,000) are incurred by the employer. The employer maintains logbook of the car. Mr. X, an employee, uses the car only for official purposes. The employer gives a certificate that the car is used only for official purposes.

Question 14

Find out the taxable value of the perquisite in respect of medical facility in the following cases:

(1)	Mr. X gets a fixed medical allowance of ₹ 600 p.m. from his employer.	
(2)	<p>Mr. Y, a director in the employer-company, gets medical treatment in dispensary maintained by his employer.</p> <p>The expenditure on medical treatment provided to Mr. Y and his family members during the P.Y. 2023-24 is as follows:</p> <ul style="list-style-type: none"> - Mr. Y, Mrs. Y and minor child of Mr. Y ₹ 9,100 - Major son of Mr. Y (not dependent upon Mr. Y) ₹ 2,700 - Parents of Mr. Y (dependent upon Mr. Y) ₹ 3,000 - Parents of Mrs. Y (dependent upon Mr. Y) ₹ 12,000 - Brother of Mr. Y (dependent on Mr. Y) ₹ 6,000 - Sister of Mr. Y (not dependent on Mr. Y) ₹ 17,000 <p>Besides, he gets reimbursement of ordinary medical expenses paid to a private medical practitioner:</p> <ul style="list-style-type: none"> - Treatment of Mr. Y, Mrs. Y and their children ₹ 2,000 - Treatment of father of Mr. Y ₹ 3,700 - Treatment of father of Mrs. Y ₹ 3,000 	
(3)	<p>Mr. Z (Salary: ₹ 2,40,000) pays mediclaim / health insurance premium (which is later on reimbursed by his employer) as follows :</p> <ul style="list-style-type: none"> - On Mr. Z's health ₹ 800 - On Mr. Z's health ₹ 600 - For the health of Mr. Z's father (not dependent upon Mr. Z) ₹ 1,000 - For the health of major son of Mr. Z (not dependent upon Mr. Z) ₹ 2,700 - For the health of brother of Mr. Z (dependent upon Mr. Z) ₹ 400 - For the health of father of Mrs. Z (dependent upon Mr. Z) ₹ 500 - For the health of grandfather of Mr. Z (dependent upon Mr. Z) ₹ 1,000 	
(4)	<p>Mr. A (Salary: ₹ 3,60,000) gets following reimbursements from his employer:</p> <ul style="list-style-type: none"> - Reimbursement of expenses incurred for caesarean operation of Mrs. A in a hospital approved by the Chief Commissioner ₹ 28,600 - Reimbursement expenses of eye's treatment (including surgical operation) in a hospital approved by the Chief Commissioner ₹ 2,700 - Reimbursement of ordinary medical expenses paid to a private nursing home ₹ 16,200 	

Question 15

Find out the taxable value of the perquisite in the following cases:

- (1) Mr. X is an employee in the Accounts Department of M/s A Ltd. He attends a seminar on 'Ind AS'. Seminar fees of ₹ 7,500 is paid by M/s A Ltd.
- (2) Mr. Y's son Chintu is a student of standard 10th of DPS, Noida. ₹ 25,800 being tuition fees of Mr. Y's son is paid/reimbursed by M/s B Ltd. where Mr. Y is employed. There is no arrangement between M/s B Ltd. and DPS, Noida.
- (3) Star Public School, Mumbai, is owned and maintained by M/s C Ltd., a manufacturing company. Books of account of the school and M/s C Ltd. are maintained separately.

Mr. Z is an employee of M/s C Ltd. Following family members of Mr. Z are studying in Star Public School:

	Cost of Education in a similar institution	Amount charged by the employer
Aliya, daughter of Mr. Z	₹ 5,500 p.m.	₹ 800 p.m.
Bunty, dependent brother of Mr. Z	₹ 6,000 p.m.	₹ 1,600 p.m.

- (4) Suppose in point no. (3) above, Star Public School is not owned/maintained by C Ltd. But, as per the arrangement of M/s C Ltd. with the school, family members of employees of M/s C Ltd. can have educational facility in the school. 100 seats are reserved for this purpose for which the company annually pays ₹ 20 lakhs to the school (no separate billing by the school to the employees of M/s C Ltd. is made in this regard). Same family members of Mr. Z as given in the table in point no. (3) above are students of the said school. Cost of education in a similar institute and the amount charged from Mr. Z by M/s C Ltd. are also same as given in the table in point no. (3) above.

Question 16

Find out the taxable value of the perquisite in the following cases for the A.Y. 2024-25:

- (1) Mr. X is given a laptop by the employer-company for using it for office and private purpose (ownership is not transferred). Cost of the laptop to the employer is ₹ 96,000.
- (2) On October 15, 2023, the company gives its music system to Mr. Y for domestic use. Ownership is not transferred. Cost of the music system to the employer is ₹ 15,000.

(3) The employer company sells the following assets to the employees on January 1, 2024:

Name of the Employee	Mr. Z	Mr. Y	Mr. X
Assets Sold	Car	Computer	Fridge
Cost of the asset to employer	₹ 6,96,000	₹ 1,17,000	₹ 40,000
Date of Purchase (put to use on the same day)	May 15, 2021	May 15, 2021	May 15, 2021
Sale price	₹ 2,10,000	₹ 24,270	₹ 1,000

Before sale on January 1, 2024, these assets were used for the purpose of the business by the employer.

Question 17

M/s KK Co. Ltd. allotted 1000 sweat equity shares to Mr. Chandu in June, 2023. The shares were allotted at ₹ 200 per share as against the fair market value of Rs. 300 per share on the date of exercise of option by the allottee i.e. Mr. Chandu. The fair market value was computed in accordance with the prescribed method.

- (i) What is the perquisite value of sweat equity shares allotted to Mr. Chandu?
- (ii) In the case of subsequent sale of these shares by Mr. Chandu, what would be the cost of acquisition of those sweat equity shares?

Question 18

The following benefits have been granted by M/s Ved Software Ltd. to one of its employees Mr. Badrinath:

- (i) Air-conditioners purchased 4 years back for ₹ 2,00,000 have been given to Mr. Badrinath for ₹ 90,000.
- (ii) Housing loan @ 6% p.a.. Amount of loan outstanding on 01-04-2023 is ₹ 6,00,000. Mr. Badrinath pays ₹ 12,000 p.m. towards principal, on 5th of each month.

Compute the value of perquisite chargeable to tax in the hands of Mr. Badrinath for the A.Y. 2024-25. SBI's prime lending rate as on 01-04-2023 for housing loan may be taken as 10% p.a.

Question 19

Mr. Anand, is an employee of M/s XYZ Co. Ltd. at Mumbai and is also covered by the Payment of Gratuity Act, 1972. He retires at the age of 64 years on 31-12-2023 after completing 33 years and 7 months of service. At the time of retirement, his employer pays ₹ 20,51,640 as gratuity and ₹ 6,00,000 as accumulated balance from the recognised

provident fund account. He is also entitled for a monthly pension of ₹ 8,000. However, he gets 75% of the pension commuted for a lumpsum of ₹ 4,50,000 on 01-02-2024. Determine the amount of salary chargeable to tax in the hands of Mr. Anand with the help of following information:

Particulars	₹
Basic Salary	₹ 80,000 p.m.
Bonus	₹ 36,000
House Rent Allowance	₹15,000 p.m.
Rent paid by Mr. Anand (for 12 months @ ₹ 10,000 p.m.)	₹ 1,20,000
Employer's contribution towards the recognized provident fund	₹ 1,10,000
Professional Tax paid by Mr. Anand	₹ 2,000

Note: Salary and Pension falls due on the last day of each month.

Question 20

Mr. M is an area manager of M/s N. Steels Co. Ltd. He gets the following emoluments from his employer:

Basic Salary

Up to 31-08-2023	₹ 20,000 p.m.
From 01-09-2023	₹ 25,000 p.m.
Conveyance Allowance (actual expenses ₹ 19,200)	₹ 2,000 p.m.
Employer's contribution to recognised provident fund	15% of Basic Salary
Children Education Allowance (Total)	₹ 500 p.m. for children
City Compensatory Allowance	₹ 300 p.m.
Hostel Expenditure Allowance (Total)	₹ 380 p.m. for 2 children
Tiffin Allowance (actual expenses on tiffin ₹3,700)	₹ 5,000 p.a.
Tax on employment paid by the employer	₹ 2,500

From the details as furnished above, compute the amount of income taxable under the head salary of Mr. M.

Question 21

Mrs. Chitrlekha, a sales executive in M/s A Ltd. in Delhi, gets the following emoluments:

Basic Salary: ₹ 54,000 p.m.;

Dearness Allowance (forming part of salary for superannuation and other retirement benefits): ₹ 2,000 p.m.; Entertainment Allowance: ₹ 24,500 p.m.;

Special Allowance: ₹ 50,000 p.m.;

House Rent Allowance: ₹ 9,000 p.m. (Rent Paid by her for the house: ₹ 16,000 p.m.);

Helper Allowance for domestic use: ₹ 5,000 p.m.

Her employer contributes ₹ 7,000 p.m. towards RPF. However, she contributes ₹ 8,000 p.m.

Interest credited to the RPF A/c of Mrs. Chitrlekha during the P.Y. @ 12% is ₹ 30,000.

The employer company provides a Maruti Alto car for personal use of Mrs. Chitrlekha (employer's expenditure: ₹ 1,37,800, depreciation of the car @ 10%: ₹ 12,600).

Free lunch (cost being ₹ 55 per day) was provided for 100 days.

The employer also provides free club facility for personal use of Mrs. Chitrlekha (expenditure of the employer: ₹ 52,100).

Determine the taxable salary income of Mrs. Chitrlekha.

HOMEWORK PROBLEMS SOLUTIONS

Answer 1

Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Mrs. Rakhi for A.Y. 2024-25.

	Particulars
1.	<p>Reimbursement of medical expenses incurred by Ms. Rakhi</p> <p>(A) The amount of ₹ 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite.</p> <p>(B) The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite.</p> <p>(C) The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependent mother-in-law in a nursing home is taxable perquisite.</p> <p>The aggregate sum of ₹ 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite</p>
2.	<p>Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is an exempt perquisite as per clause (iii) of the first proviso to section 17(2).</p>
3.	<p>Medical allowance of ₹ 2,000 per month i.e., ₹ 24,000 p.a. is a fully taxable allowance.</p>
4.	<p>As per clause (ii) (a) of the first proviso to section 17(2), reimbursement of medical expenses of ₹ 5,000 on her son's treatment in a hospital maintained by the Government is an exempt perquisite.</p>
5 & 6	<p>As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions –</p> <p>(i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India [₹ 1,05,000, in this case];</p> <p>(ii) Expenditure on stay abroad of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [₹ 1,20,000, in this case].</p>
	<p>The conditions subject to which the above expenditure would be exempt are as follows –</p> <p>The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent of foreign exchange permitted by Reserve Bank of India.</p>

Assuming that the limit of ₹ 2 lakh prescribed by RBI pertains to both expenditure on medical treatment of minor son as well as expenditure on stay abroad of Ms. Rakhi and her minor son, such expenditure would be excluded from perquisite subject to a maximum of ₹ 2 lakh. If such expenditure is less than ₹ 2 lakh, it would be fully excluded. Thus in this case ₹ 25,000 will be taxable.

Answer 2

Computation of Taxable Salary of Mr. Balaji for A.Y. 2024-25

Particulars		₹
Basic salary [(₹ 50,000 × 7) + (₹ 60,000 × 5)]		6,50,000
Dearness Allowance (40% of basic salary)		2,60,000
Bonus (₹ 50,000 + 40% of ₹ 50,000) (See Note 1)		70,000
Employers contribution to recognized provident fund in excess of 12% of salary = 4% of ₹ 6,50,000 (See Note 4)		26,000
Professional tax paid by employer		2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) (See Note 5)		12,000
Gross Salary		
Less: Deduction under section 16		
Standard deduction u/s 16(ia)	₹ 50,000	
Professional tax u/s 16(iii) (See Note 6)	₹ 2,500	₹ 10,20,000
Taxable Salary		9,67,500

Notes:

1. Since bonus was paid in the month of October, the basic salary of ₹ 50,000 for the month of October is considered for its calculation.
2. As per Rule 3(7)(vii), facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.
3. Mr. Balaji can avail exemption under section 10(5) on the entire amount of ₹ 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple birth which take place after the first child. It is assumed that the Leave Travel Concession was availed for journey within India.
4. It is assumed that dearness allowance does not form part of salary for computing retirement benefits.

5. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be ₹ 2,400 per month. The car was provided to the employee from 1.11.2023, therefore the perquisite value has been calculated for 5 months.
6. As per section 17(2)(iv), a “perquisite” includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year. Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 2,500 is provided from salary.

Answer 3

Allowances taxable in the hands of Mr. Vishnu:

Particulars	₹	₹	₹
(1) Helper Allowance [Rs. 500 p.m. x 12] Less: Exemption u/s 10(14) shall be least of the following: (a) Actual Amount Received (b) Amount spent to engage helper [Rs. 250 p.m. x 10]		6,000	
	6,000	(2,500)	3,500
(2) Conveyance Allowance [Rs. 950 p.m. x 12] Less: Exemption u/s 10(14) shall be least of the following: (a) Actual Amount Received (b) Amount spent on official conveyance [Rs. 1,200 p.m. x 12 x 40%]		11,400	
	11,400	(5,760)	5,640
(3) Children Education Allowance [Rs. 450 p.m. for 3 children or Rs. 150 p.m.p.c. x 3 x 12] Less: Exemption u/s 10(14) shall be least of the following: (a) Actual Amount Received [Rs. 450 p.m. for 3 children or Rs. 150 p.m.p.c. x 3 x 12] (b) Maximum Amount as per IT Rules, 1962 [*Rs. 100 p.m.p.c. x 2 x 12] (Maximum Amt. as per IT Rules, 1962 is Rs. 100 p.m.p.c. for max. 2 children)		5,400	
	5,400	(2,400)	3,000

(4) Children Hostel Expenditure Allowance [Rs. 450 p.m. for 3 children or Rs. 150 p.m.p.c. x 3 x 12] Less: Exemption u/s 10(14) shall be least of the following:		5,400	
(a) Actual Amount Received [Rs. 450 p.m. for 3 children or Rs. 150 p.m.p.c. x 3 x 12]	5,400		
(b) Maximum Amount as per IT Rules, 1962	3,600	(3,600)	1,800
(c) [*Rs. 150 p.m.p.c. x 2 x 12] (Maximum Amt. as per IT Rules, 1962 is Rs. 300 p.m.p.c. for max. 2 children)			
(5) Running/Outstation Allowance [Rs. 9,000 p.m. x 12] Less: Exemption u/s 10(14) shall be least of the following:		1,08,000	
(a) 70% of the Amount Received [70% of Rs. 1,08,000]	75,600		
(b) Maximum Amount as per IT Rules, 1962 [Rs. 10,000 p.m. x 12]	1,20,000	(75,600)	32,400
(6) Uniform Allowance [Rs. 1,500 p.m. x 12] Less: Exemption u/s 10(14) shall be least of the following:		18,000	
(a) Actual Amount Received			
(b) Amount actually spent on Uniform [Rs. 1,500 p.m. x 12]	18,000 18,000	(18,000)	NIL
Total Taxable Allowance			46,340

Answer 4

Particulars	₹	₹
House Rent Allowance		60,000
Less: Exemption u/s 10(13A) shall be least of the following:		
(a) Amount of HRA Actually Received	60,000	
(b) 40% of Salary** [40% of Rs. 3,85,000]	1,54,000	
(c) Rent Paid (-) 10% of Salary** [Rs. 45,000 (-) Rs. 10% of 3,85,000]	6,500	(6,500)
Taxable Amount of House Rent Allowance	53,500	

**** Salary** for the purpose of HRA exemption:

Basic Salary	3,00,000
Dearness Allowance (in terms of employment)	60,000
Turnover Commission (2.5% of 10,00,000)	25,000
**Salary	3,85,000

Answer 5

House Rent Allowance taxable in the hands of Mr. Chirkut:

Particulars	Apr & May	June & July	Aug & Nov	Dec	Jan	Feb & Mar
Basic salary	40,000	50,000	50,000	1,00,000	1,00,000	1,00,000
DA (in terms)	7,200	9,000	9,000	4,000	4,000	4,000
Turnover Commission	NIL	NIL	NIL	NIL	NIL	NIL
Salary	47,200	59,000	59,000	1,04,000	1,04,000	1,04,000
Actual HRA Received [A]	20,000	35,000	35,000	60,000	60,000	60,000
50% of Salary	23,600	29,500	29,500	52,000	-	-
40% of Salary	-	-	-	-	41,600	41,600
Rent Paid (-) 10% of Salary	280	NIL	23,100	18,600	NIL	49,600
Exemption u/s 10(13A) [B]	280	NIL	23,100	18,600	NIL	41,600
Taxable HRA (p.m.) [A-B]	19,720	35,000	11,900	41,400	60,000	18,400
(x) Period (in months)	2	2	4	1	1	2
Taxable HRA for the period	39,440	70,000	47,600	41,400	60,000	36,800

Therefore, taxable amount of HRA is Rs. 2,95,240.

Answer 6

As per section 10(10), the amount of any death-cum-retirement gratuity, received or receivable by an employee from the employer at the time of retirement shall be exempt fully in the hands of a government employee.

However, such amount, if received or receivable by a non-government employee shall not be fully exempt u/s 10(10). The exemption u/s 10(10) in case of non-government employee shall be restricted subject to certain limits which depends on the fact whether the employee is covered by the Payment of Gratuity Act, 1972 or not.

In the instant case, Mr. Timberlake is a non-government employee who is covered by the Payment of Gratuity Act, 1972. Therefore, the amount of gratuity exempt u/s 10(10) in his hands shall be least of the following:

(a) Gratuity actually received or receivable	2,50,000
(b) Maximum Amount u/s 10(10)	20,00,000
(c) $\frac{15}{26}$ (x) ** Last Drawn Salary p.m. (x) No. of years of service [$\frac{15}{26}$ (x) Rs. 9,000 p.m. (x) 39 years]	2,02,500

Therefore, gratuity exempt in the hands of Mr. Timberlake shall be Rs. 2,02,500. And the amount of gratuity taxable in his hands shall be Rs. 47,500 [i.e. Rs. 2,50,000 (-) Rs. 2,02,500].

Note:

- (1) ** Last Drawn Salary p.m. = Basic Salary (+) Dearness Allowance of the month immediately preceding to the month of retirement i.e. Rs. 7,500 (+) Rs. 1,500 = Rs. 9,000.
- (2) Fraction of the year is treated as the whole year in computing no. of years of service as the fraction exceeds 6 months.

However, if Mr. Timberlake was not covered by the Payment of Gratuity Act, 1972, then, in such case, the amount of gratuity exempt u/s 10(10) in his hands would have been least of the following:

(a) Gratuity actually received or receivable	2,50,000
(b) Maximum Amount u/s 10(10)	20,00,000
(c) $\frac{15}{30}$ (x) ** Average Salary p.m. (x) No. of completed years of service [$\frac{15}{30}$ (x) Rs. 9,000 p.m. (x) 38 years]	1,71,000

Therefore, gratuity exempt in the hands of Mr. Timberlake shall be Rs. 1,71,000. And the amount of gratuity taxable in his hands shall be Rs. 79,000 [i.e. Rs. 2,50,000 (-) Rs. 1,71,000].

Note:

- (1) ** Average Salary p.m. = [Basic Salary (+) Dearness Allowance (in terms) (+) Turnover Commission] for 10 months immediately preceding to the month of retirement (\div) 10 months i.e. [Rs. 7,500 (+) Rs. 1,500 (+) NIL] (x) 10 (\div) 10 i.e. Rs. 9,000.
- (2) In the absence of any information, Dearness Allowance is assumed to be provided in terms.
- (3) Fraction of the year is ignored as we have to consider only the no. of completed years of service.

Answer 7

The amount of gratuity exempt u/s 10(10) in the hands of Mr. Ching Lee who is not covered by the Payment of Gratuity Act, 1972 would be least of the following:

(a) Gratuity actually received or receivable	4,50,000
(b) Maximum Amount u/s 10(10) - [Rs. 20,00,000 (-) Rs. 2,20,000]	17,80,000
(c) $\frac{15}{30}$ (x) ** Average Salary p.m. (x) No. of completed years of service [$\frac{15}{30}$ (x) Rs. 24,300 p.m. (x) 15 years]	1,82,250

Therefore, gratuity exempt in the hands of Mr. Ching Lee shall be Rs. 1,82,250. And the amount of gratuity taxable in his hands shall be Rs. 2,67,750 [i.e. Rs. 4,50,000 (-) Rs. 1,82,250].

Note:

- (1) ** Average Salary p.m. = [Basic Salary (+) Dearness Allowance (in terms) (+) Turnover Commission] for 10 months immediately preceding to the month of retirement (÷) 10 months i.e.

$$[(21,200 \times 10) + (2,000 \times 80\% \times 10) + (6\% \text{ of } 2,50,000)] \div 10m = 24,300 \text{ pm}$$
- (2) Fraction of the year is ignored as we have to consider only the no. of completed years of service.
- (3) The assessee can take the aggregate exemption to the extent of maximum Rs. 20,00,000 during his life time u/s 10(10). Therefore, if the assessee has taken the benefit of said section at any time during any earlier A.Y., then the amount of exemption so taken shall be reduced from the limit of Rs. 20,00,000 while computing the amount of exemption u/s 10(10) in any subsequent A.Y.

Answer 8

(a) Computation of taxable pension:		
Uncommuted Pension		
From Sept' 23 to Dec' 23 - [Rs. 5,000 p.m. x 4]	20,000	
From Jan' 24 to Mar' 24 - [Rs. 5,000 p.m. x 40% x 3]	6,000	26,000
Commuted Pension		
Less: Exempt u/s 10(10A) to the extent of least of following:		
(a) $\frac{1}{3}$ rd of Fully Commuted Pension = Rs. 40,000 [1/3rd of 72,000 (x) 100 (÷) 60]	72,000	
(b) Amount Actually Received = Rs. 72,000	(40,000)	32,000
Therefore, total taxable pension is Rs. 58,000 i.e. [Rs. 26,000 + Rs. 32,000].		
(b) Computation of taxable pension:		
Uncommuted Pension		
From Sept' 23 to Dec' 23 - [Rs. 5,000 p.m. x 4]	20,000	
From Jan' 24 to Mar' 24 - [Rs. 5,000 p.m. x 40% x 3]	6,000	26,000

Committed Pension		
Less: Exempt u/s 10(10A) to the extent of least of following:	72,000	
(a) $\frac{1}{2}$ th of Fully Committed Pension = Rs. 60,000 [$\frac{1}{2}$ th of 72,000 (x) 100 (\div) 60]		
(b) Amount Actually Received = Rs. 72,000	(60,000)	12,000
Therefore, total taxable pension is Rs. 38,000 i.e. [Rs. 26,000 + Rs. 12,000].		
(c) Computation of taxable pension: Uncommitted Pension		
From Sept' 23 to Dec' 23 - [Rs. 5,000 p.m. x 4]	20,000	
From Jan' 24 to Mar' 24 - [Rs. 5,000 p.m. x 40% x 3]	6,000	26,000
Committed Pension [Fully Exempt u/s 10(10A) as Mrs. Sharma is a Government Employee]		NIL
Therefore, total taxable pension is Rs. 26,000 i.e. [Rs. 26,000 + NIL].		

Answer 9

(a) As per section 10(10AA), any leave salary received or receivable at the time of retirement or separation by a government employee shall be fully exempt in the hands of a government employee.

However, such amount, if received or receivable by a non-government employee shall not be fully exempt u/s 10(10AA). The exemption u/s 10(10AA) shall be restricted subject to certain limits. In the instant case, Mr. Dev is a non-government employee.

Therefore, the amount of leave salary exempt u/s 10(10AA) in his hands shall be least of the following:

(a) **Leave Credit x *Average Salary p.m. - [1 month x Rs. 3,000]	3,000
(b) 10 month's Salary [i.e. Average Salary p.m. (x) 10 months] - [Rs. 3,000 x 10 months]	30,000
(c) Actual Leave Salary received or receivable	36,000
(d) Maximum Limit u/s 10(10AA)	25,00,000

Therefore, leave salary exempt in the hands of Mr. Dev shall be Rs. 3,000. And the amount of leave salary taxable in his hands shall be Rs. 33,000 [i.e. Rs. 36,000 (-) Rs. 3,000].

Note:

(1) * Average Salary p.m. = [Basic Salary (+) Dearness Allowance (in terms) (+) Turnover Commission] for 10 months including the month of retirement (\div) 10 months i.e. [(Rs. 3,000 x 10) + NIL + NIL] (\div) 10 months = Rs. 3,000 p.m.

(2) ** Leave Credit:

Particulars	As per Service Rules	As per Income Tax Rules
Leave Allowed/Entitlement	1.5 months	Max. 1 month
(x) No. of completed years of service	22 years	22 years
Total Leave Allowed/Entitlement	33 months	22 months
(-) Total Leave Availed/Utilised (Balancing Amount)	(21 months)	(21 months)
Leave Credit	12 months (given)	1 month (computed)

whichever is Lower

(b) If the leave to the credit of Mr. Dev at the time of his retirement would have been only 9 months, then the amount of exemption u/s 10(10AA) in his hands would have been least of the following:

(a) **Leave Credit x *Average Salary p.m. - [ZERO month x Rs. 3,000]	NIL
(b) 10 month's Salary [i.e. Average Salary p.m. (x) 10 months] - [Rs. 3,000 x 10 months]	30,000
(c) Actual Leave Salary received or receivable	36,000
(d) Maximum Limit u/s 10(10AA)	25,00,000

- (a) **Leave Credit x *Average Salary p.m. - [ZERO month x Rs. 3,000] NIL
- (b) 10 month's Salary [i.e. Average Salary p.m. (x) 10 months] - [Rs. 3,000 x 10 months] 30,000
- (c) Actual Leave Salary received or receivable 36,000
- (d) Maximum Limit u/s 10(10AA) 25,00,000

Therefore, leave salary exempt in the hands of Mr. Dev shall be Rs. NIL. And the amount of leave salary taxable in his hands shall be Rs. 36,000 [i.e. Rs. 36,000 (-) NIL].

Note:

(1) All the other variables remaining the same in this case. However, for computing the amount of exemption u/s 10(10AA) only the calculation of leave credit would be changed and the same would be ascertained in the following manner:

(2) ** Leave Credit:

Particulars	As per Service Rules	As per Income Tax Rules
Leave Allowed/Entitlement	1.5 months	Max. 1 month
(x) No. of completed years of service	22 years	22 years
Total Leave Allowed/Entitlement	33 months	22 months
(-) Total Leave Availed/Utilised (Balancing Amount)	(24 months)	(24 months)
Leave Credit	9 months (given)	ZERO months (computed)

whichever is Lower

(c) However, if Mr. Dev was the employee of Rajasthan State Government, then the leave salary received by him at the time of retirement from the Rajasthan Government would have been fully exempted as per section 10(10AA).

Answer 10

Particulars	SPF	RPF	UPF
Basic Salary	1,20,000	1,20,000	1,20,000
Dearness Allowance	40,000	40,000	40,000
Commission [1% of Rs. 6,00,000]	6,000	6,000	6,000
Education Allowance [Rs. 7,200 p.a. for 2 children i.e. Rs. 300 p.m.p.c. x 2 x 12] Less: Exemption u/s 10(14) shall be least of the following: (a) Actual Amount Received = Rs. 7,200 [Rs. 7,200 p.a. for 2 children i.e. Rs. 300 p.m.p.c. x 2 x 12] (b) Maximum Amount as per IT Rules, 1962 = Rs. 2,400 [*Rs. 100 p.m.p.c. x 2 x 12] *Maximum Amount as per IT Rules, 1962 is Rs. 100 p.m.p.c. for max. 2 children) Therefore, taxable amount = Rs. 4,800 i.e. [Rs. 7,200 - Rs. 2,400]	4,800	4,800	4,800

Employer's Contribution towards RPF in excess of 12% of Salary (Note 1)	-	2,672	-
Interest Credited to RPF Account in excess of 9.5% p.a. [i.e. Rs. 93,500 (×) 1.5 (÷) 11]	-	12,750	-
Gross Taxable Salary	1,70,800	1,86,222	1,70,800
Less : Deduction u/s 16	(50000)	(50000)	(50000)
Income taxable under the head Salary	120800	136222	120800
Other Incomes	200000	200000	200000
Gross Total Income	320800	336222	320800
Less – Deduction u/s 80C	20000	20000	Nil
Net Total Income	300800	316222	320800

Note:

(1)

Employer's Contribution to RPF Account of Mr. Kalicharan		20,000
Less: Exempt up to least of following:		
(a) 12% of **Salary [12% of Rs. 1,44,400]	17,328	
(b) Amount actually contributed by the employer	20,000	(17,328)
Taxable Amount of Employer's Contribution in excess of 12% of Salary		2,672

**** Salary**

Basic Salary	1,20,000
DA (in terms) - [46% of Rs. 40,000] Turnover Commission	18,400
	6,000
**Salary	1,44,400

(2) Mr. Kalicharan can claim deduction u/s 80C in respect of his contribution towards SPF/RPF. However, no deduction u/s 80C would be available in respect of his contribution towards UPF.

Answer 11

(A)

Name of the Assessee: Mr. Aloknath

Status: Individual – ROR

PAN: _____

P.Y. : _____

A.Y. : _____

Computation of Income under the head Salary

Particulars	₹	₹
Basic Salary [Rs. 25,000 x 12]		3,00,000
D.A. (not in terms) [Rs. 7,250 p.m. x 12]		87,000
Travel Allowance [Rs. 3,000 x 12]	36,000	
Less: Exemption u/s 10(14) shall be least of the following:		
(a) Actual Amount Received = Rs. 36,000	(14,400)	21,600
(b) Amount spent on official travelling = Rs. 14,400 [Rs. 3,000 p.m. x 12 x 40%]		
Commission [Rs. 2,500 p.m. x 12]		30,000
Entertainment Allowance [Rs. 2,500 p.m. x 12]		30,000
Uniform Allowance [Rs. 2,100 x 12]	25,200	
Less: Exemption u/s 10(14) shall be least of the following:		
(a) Actual Amount Received = Rs. 25,200		
Maximum Amount as per Income Tax Rules, 1962 = Rs. 19,200	(19,200)	6,000
Tribal Area Allowance	8,400	
Less: Exemption u/s 10(14) shall be least of the following:		
(a) Actual Amount Received = Rs. 8,400		
(b) Maximum Amount as per Income Tax Rules, 1962 = Rs. 2,400 [Rs. 200 p.m. x 12]	(2,400)	6,000
Bonus [Note 2]		NIL
Professional Tax of Mr. Aloknath paid by the employer [Note 3]		2,000
Advance Salary for April & May, 2021 [Note 4]		50,000
Taxable value of rent-free furnished accommodation @ Jaipur [Note 5]		79,040
Gross Taxable Salary		6,11,640
Less: Deduction u/s 16		
(ia) Standard Deduction	50,000	
(ii) Entertainment Allowance	NIL	
(iii) Professional Tax Paid [Note 3]	2,000	(52,000)
Income taxable under the head 'Salary'		5,59,640

Note:

- (1) Bonus is taxed on receipt basis under the head 'Salary'. Hence, bonus declared during the year amounting to Rs. 25,000 has been ignored.
- (2) As per section 17(2)(iv), a 'perquisite' includes any sum paid by the employer in

respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of Rs. 2,000 paid by the employer on behalf of the employee is taxable as a perquisite in the hands of Mr. Aloknath. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year.

Therefore, in the present case, the professional tax paid by the employer on behalf of the employee Rs. 2,000 is first included in the salary and then deduction for the same is provided from gross taxable salary.

(3) As per section 15, income under the head 'Salary' is taxed on due or receipt whichever is earlier basis. Hence, advance salary received shall be taxable. However, this amount shall not be taxed once again on due basis when it becomes due during the next PY.

(4) Taxable value of Rent-free Furnished Accommodation at Jaipur:

Value of Rent-free unfurnished accommodation [15% of ** Salary i.e. 15% of Rs. 3,93,600]	59,040
Add: Value of furniture:	
Owned by the employer [10% p.a. of Rs. 50,000] = Rs. 5,000	20,000
Taken on hire by the employer [Rs. 1,250 x 12] = Rs. 15,000	
Taxable value of Rent-free Furnished Accommodation at Jaipur	79,040
** Salary :	
Basic Salary	3,00,000
Travel Allowance	21,600
Commission	30,000
Entertainment Allowance	30,000
Uniform Allowance	6,000
Tribal Area Allowance	6,000
** Salary =	3,93,600

If the employer recovers Rs. 2,500 p.m. from Mr. Aloknath for the accommodation, then the value of perquisite of furnished accommodation at concessional rent shall be as follows:

Taxable value of rent-free furnished accommodation at Jaipur [as computed above in Note 5]	79,040
Less: Rent Recovered from the employee [Rs. 2,500 p.m. x 12]	(30,000)
Taxable value of perquisite of furnished accommodation at concessional rent	49,040

In the above case, Income taxable under the head 'Salary' would be as follows:

Income taxable under the head 'Salary' [as computed above]	5,59,640
Less: Taxable value of Rent-free Furnished Accommodation at Jaipur	(79,040)
Add: Taxable value of perquisite of furnished accommodation at concessional rent	49,040
Income taxable under the head 'Salary'	5,29,640

Answer 12

For determining which option is the better for Mrs. Pradhan in order to minimise her tax bill, we have to calculate her net taxable income under both the options:

Name of the Assessee: Mrs. Pradhan

Status: Individual - ROR

PAN: _____

P.Y. : _____

A.Y. : _____

Computation of Income under the head Salary

Particulars	Rent-free Accommodation	HRA
Basic Salary [Rs. 24,000 × 12]	2,88,000	2,88,000
Dearness Allowance [18% of Rs. 2,88,000]	51,840	51,840
Bonus	24,000	24,000
Project Allowance [6% of Rs. 2,88,000]	17,280	17,280
Rent Free Unfurnished Accommodation [Note 1]	49,392	-
House Rent allowance [Note 2]	-	64,800
Gross Taxable Salary	4,30,512	4,45,920
Less: Deduction u/s 16	(50,000)	(50,000)
Income taxable under the head 'Salary'	3,80,512	3,95,920
Income from Other Sources	1,70,000	1,70,000
Gross Total Income	5,50,512	5,65,920

Conclusion:

Gross Total Income under the first option is less, which will result into lesser tax expenditure as compared to the second option. Hence, Mrs. Pradhan should opt for first option i.e. Rent Free Unfurnished Accommodation.

Note:

(1) Taxable value of rent free unfurnished accommodation would be least of:

Lease Rent of the house i.e. [Rs. 15,000 × 12] = Rs. 1,80,000; OR 15% of ****Salary i.e.**

[15% of 3,29,280] = Rs. 49,392.

Rs. 49,392 being the least, would therefore be taxable value of rent free unfurnished accommodation.

****Salary** for the purpose of calculation of taxable value of rent free unfurnished accommodation is [Rs. 2,88,000 + Rs. 24,000 + Rs. 17,280] = Rs. 3,29,280.

(2) Amount of HRA exempt from tax u/s 10(13A) is the **least of the following:**

- a. Rs. 1,15,200 (being 40% of Rs. 2,88,000);
- b. Rs. 1,80,000 (being actual house rent allowance received); and
- c. Rs. 1,51,200 (being the excess of rent paid over 10% of Salary)

[i.e. Rs. 1,80,000 (-) 10% of Rs. 2,88,000]

Rs. 1,15,200, being the least, is exempt value of HRA u/s 10(13A).

Therefore, HRA amounting to Rs. 64,800 i.e. [Rs. 1,80,000 (-) Rs. 1,15,200] is chargeable to tax.

Answer 13

(1) The employer owns the car. All expenses are met by the employer including cost involved to engage the driver. Further, the car is used partly for official purposes and partly for private purposes. The taxable value of this perquisite shall be **[Rs. 1,800 p.m. (+) Rs. 900 p.m.] × 12] = Rs. 32,400.**

(2) If the car is used only for private purposes, in such case taxable value of the perquisite shall be:

10% of the Actual Cost i.e. 10% of Rs. 4,26,000	42,600
Petrol Expenses	46,000
Expenses on Driver	36,000
Maintenance Expenses	10,000
Total	1,34,600
Less: Amount recovered from Mr. X	12,000
Taxable Value of Perquisite	1,22,600

(3) The employer owns the car however, Mr. X incurs expenses for private purposes. It can be used partly for official purposes and partly for private purposes. Therefore, taxable value of perquisite shall be **[Rs. 900 p.m. × 12] = Rs. 10,800.**

(Rs. 900 p.m. is not added to the value of perquisite because driver is not provided by the employer).

(4) The employer owns the car which can be used by Mr. X only for private purposes. All expenses are incurred by Mr. X. Therefore, Rs. 48,000 being 10% of the Actual Cost i.e. 10% of Rs. Rs. 4,80,000 is the taxable value of the perquisite.

(5) Mr. X owns a car which is used by him for official as well as private purposes. The value of the perquisite shall be determined as follows:

Amount reimbursed by the employer	64,000
Less: Deduction for official use - [Rs. 1,800 p.m. (+) Rs. 900 p.m.] × 12]	32,400
Taxable Value of Perquisite	31,600

(6) The value of the perquisite shall be determined as follows:

Amount reimbursed by the employer	64,000
Less: Amount for official purposes as certified by the employer - [70% or Rs. 64,000]	44,800
Taxable Value of Perquisite	19,200

(7) The employer maintains complete details of the expenditure. A certificate is also given by the employer that the expenditure is incurred only for official purposes. Therefore, nothing is chargeable to tax in the hands of Mr. X.

Answer 14

(1) Fixed Medical Allowance of Rs. 600 p.m. (i.e. Rs. 7,200 p.a.) is chargeable to tax. It is an allowance and not a perquisite. It is always fully taxable irrespective of the amount spent out of such allowance as medical expenditure.

(2) The perquisite shall be chargeable to tax in the hands of Mr. Y as under:

Particulars	Value of medical facility provided in a dispensary maintained by the employer		Reimbursement of expenses paid to a private medical practitioner	
	Not taxable at all	Taxable	Taxable	Taxable
Mr. Y, Mrs. Y & minor child	9,100	-	2,000	-
Major son of Mr. Y	2,700	-	-	-
Parents of Mr. Y	3,000	-	3,700	-

Parents of Mrs. Y	-	12,000	-	3,000
Brother of Mr. Y	6,000	-	-	-
Sister of Mr. Y	-	17,000	-	-
Total	20,800	29,000	5,700	3,000
Less: Amount not taxable	20,800	NIL	Nil	NIL
Taxable Amount	NIL	29,000	5,700	3,000

- (3) Reimbursement of mediclaim/health insurance premium to Mr. Z shall be taxable as under:

Particulars	Not taxable Rs.	Taxable Rs.
On Mr. Z's health	800	-
On Mrs. Z's health	600	-
For the health of Mr. Z's father	-	1,000
For the health of Mr. Z's major son	2,700	-
For the health of Mr. Z's dependent brother	400	-
For the health of Mrs. Z's father	-	500
For the health of Mr. Z's grandfather	-	1,000
Total	4,500	2,500

- (4) Reimbursement of expenses shall be taxable as under:

Particulars	Not Taxable Rs.	Taxable
Operation of Mrs. A	28,600	-
Eye's treatment	2,700	-
Private nursing home bills	-	16,200
Total	31,300	16,200
Amount taxable	NIL	16,200

Answer 15

- (1) Any expenditure incurred by the employer on training/education of an employee is not chargeable to tax in the hands of the employee as a perquisite. Hence, Seminar Fees of Rs. 7,500 incurred by M/s A Ltd. for seminar on 'Ind AS' attended by Mr. X is not chargeable to tax in the hands of Mr. X.
- (2) Rs. 25,800, paid/reimbursed by M/s B Ltd. to Mr. Y, being tuition fees of his son Chintu is taxable fully in the hands of Mr. Y. No exemption in this regard would be

granted to Mr. Y as DPS, Noida is neither owned & maintained by M/s B Ltd. nor it is an institution where M/s B Ltd. has some arrangements.

(3) Star Public School is owned & maintained by the M/s C Ltd. Therefore, the amount taxable in the hands of Mr. Z as value of education facility will be as follows:

- For Aliya (daughter of Mr. Z) [(Rs. 5,500 - Rs. 1,000 - Rs. 800) × 12] Rs. 44,400
- For Bunty (brother of Mr. Z) [(Rs. 6,000 - Rs. 1,600) × 12] Rs. 52,800

(4) The taxable amount will be the same as is given in point no. (3) above.

Note: Alternatively 4,700 p.m. [5,500p.m – 800 p.m. recovered from employee] could have been tax.

Answer 16

(1) Mr. X is provided use of laptop by the employer. Nothing is chargeable to tax in this case. Hence, taxable value of perquisite shall be NIL.

(2) Mr. Y is provided a music system by the employer. The taxable value of the perquisite is determined @ 10% p.a. of the actual cost of the asset. Accordingly Rs. 690 (being Rs. 15,000 × 10% × 168/365 days) is chargeable to tax.

(3) The taxable value of the perquisite in the hands of Mr. Z, Mr. Y and Mr. X shall be determined as follows:

Particulars	Car Rs.	Computer Rs.	Fridge Rs.
Cost of the asset on May 15, 2021	6,96,000	1,17,000	40,000
Less: Normal wear & tear for the first year ending May 14, 2022 (20% of Rs. 6,96,000, 50% of Rs. 1,17,000 & 10% of Rs. 40,000)	(1,39,200)	(58,500)	(4,000)
Balance on May 15, 2022	5,56,800	58,500	36,000
Less: Normal wear & tear for the second year ending May 14, 2023 (20% of Rs. 5,56,800, 50% of Rs. 58,500 & 10% of Rs. 40,000)	(1,11,360)	(29,250)	(4,000)
Balance on May 15, 2023	4,45,440	29,250	32,000
Less: Normal wear & tear from May 15, 2023 to January 1, 2024 (for a part of the year, normal wear & tear is not deductible)	Nil	Nil	Nil
Balance as on January 1, 2024	4,45,440	29,250	32,000
Less: Sale Consideration	(2,10,000)	(24,270)	(1,000)
Taxable value of the perquisite	2,35,440	4,980	31,000

Note:

- (1) In the case of car and computer/electronic items, normal wear and tear is calculated @ 20% and 50% p.a. respectively on the basis of written down value. In the case of any other asset, normal wear and tear is calculated at the rate of 10% p.a. on straight line basis i.e. on the of actual cost of the asset to the employer.
- (2) Normal wear & tear for a part of the year is not taken into consideration.

Answer 17

- (i) As per section 17(2)(vi), the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares as on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

Particulars	Rs
FMV of sweat equity shares as on the date of exercise of option [1,000 shares x Rs. 300 per share]	300,000
Less: Amount recovered from Mr. Chandu [1,000 shares x Rs. 200 per share]	(200,000)
Taxable value of perquisite	100,000

Though the taxable value of perquisite is computed by considering the FMV as on the date of exercise of option, however, this value shall be taxed in the P.Y. in which these shares are allotted to the assessee.

- (ii) As per section 49(2AA), the cost of acquisition of the sweat equity shares in order to compute the amount of capital gains on transfer of such shares when these share are subsequently sold by the assessee shall be the FMV of such shares as on the date of exercise of option which has been taken into account for valuation of perquisite u/s 17(2)(vi).

Therefore, in case of subsequent sale of sweat equity shares by Mr. Chandu, the cost of acquisition to be considered to compute the amount of capital gains, would be Rs. 3,00,000 i.e. the FMV as on the date of exercise of option by Mr. Chandu and which has been taken into account for valuation of perquisite u/s 17(2)(vi) in his hands.

Answer 18

- (i) **Air Conditioners sold at nominal/concessional price:**

As per Section 17(2)(viii) read with Rule 3(7), the benefit arising on transfer/sale of any movable asset to the employee at a nominal price by the employer after its use in the employer's business shall be computed in the following manner:

Particulars	Rs.
Original Cost of the Air Conditioners	200,000
Reduction towards normal wear & tear (i.e. depreciation) on SLM basis for 4 years @ 10% [i.e. Rs. 2,00,000 × 10% × 4]	(80,000)
Written Down Value	120,000
Amount recovered from the employee (i.e. selling price of the asset)	(90,000)
Perquisite value	30,000

Thus, total value of perquisite chargeable to tax in the hands of Mr. Badrinath would be: Rs. 20,880 (+) Rs. 30,000 = Rs. 50,880.

(ii) **Loan from employer at concessional rate:**

As per Section 17(2)(viii) read with Rule 3(7), value of the benefit resulting from the provision of interest-free loan or loan at concessional rate provided to the employee or any member of his household during the P.Y. shall be:

Interest computed on the amount of maximum outstanding monthly balance of the loan as on the last day of each month by applying SBI's prime lending rate as on the 1st day of the relevant P.Y. for same type of loan and reduced by the amount of interest, if any, actually paid by the employee on such loan. Accordingly, value of the interest benefit arising out of the above housing loan & taxable in the hands of Mr. Badrinath shall be:

Month	Maximum outstanding balance of loan as on the last day of month Rs.	Value of interest benefit @ 4% i.e. [10% (-) 6%]
April	[Rs. 6,00,000 - Rs. 12,000] = Rs. 5,88,000	Rs. 5,88,000 × 4% × 1/12 = 1,960
May	[Rs. 5,88,000 - Rs. 12,000] = Rs. 5,76,000	Rs. 5,76,000 × 4% × 1/12 = 1,920
June	[Rs. 5,76,000 - Rs. 12,000] = Rs. 5,64,000	Rs. 5,64,000 × 4% × 1/12 = 1,880
July	[Rs. 5,64,000 - Rs. 12,000] = Rs. 5,52,000	Rs. 5,52,000 × 4% × 1/12 = 1,840
Aug	[Rs. 5,52,000 - Rs. 12,000] = Rs. 5,40,000	Rs. 5,40,000 × 4% × 1/12 = 1,800
Sept	[Rs. 5,40,000 - Rs. 12,000] = Rs. 5,28,000	Rs. 5,28,000 × 4% × 1/12 = 1,760
Oct	[Rs. 5,28,000 - Rs. 12,000] = Rs. 5,16,000	Rs. 5,16,000 × 4% × 1/12 = 1,720

Nov	[Rs. 5,16,000 - Rs. 12,000] = Rs. 5,04,000	Rs. 5,04,000 × 4% × 1/12 = 1,680
Dec	[Rs. 5,04,000 - Rs. 12,000] = Rs. 4,92,000	Rs. 4,92,000 × 4% × 1/12 = 1,640
Jan	[Rs. 4,92,000 - Rs. 12,000] = Rs. 4,80,000	Rs. 4,80,000 × 4% × 1/12 = 1,600
Feb	[Rs. 4,80,000 - Rs. 12,000] = Rs. 4,68,000	Rs. 4,68,000 × 4% × 1/12 = 1,560
Mar	[Rs. 4,68,000 - Rs. 12,000] = Rs. 4,56,000	Rs. 4,56,000 × 4% × 1/12 = 1,520
Taxable value of perquisite		20,880

Answer 19

Name of the Assessee: Mr. Anand

Status: Individual - ROR

PAN: _____

P.Y.: _____

A.Y.: _____

Computation of Income under the head Salary

Particulars	Rs.
Basic Salary [Rs. 80,000 × 9]	7,20,000
Bonus	36,000
House Rent Allowance - [Note 1]	1,17,000
Employer's contribution towards recognized provident fund in excess of 12% of salary [i.e. Rs. 1,10,000 (-) Rs. 86,400 (12% of Rs. 7,20,000)]	23,600
Gratuity - [Note 2]	4,82,409
Uncommuted Pension [(Rs. 8,000 × 1) (+) (Rs. 8,000 × 25% × 2)]	12,000
Commuted Pension - [Note 3]	2,50,000
Accumulated Balance from RPF - [Note 4]	NIL
Gross Taxable Salary	22,10,240
Less : Deduction u/s	
16(ia) – Standard Deduction	(50,000)
16(ii) – Entertainment Allowance	(NIL)
16(iii) – Professional Tax Paid	(2,000)
Income under the head Salary	15,89,009

Note:

(1) Taxable Value of House Rent Allowance

House Rent Allowance actually received			1,35,000
Less: Exempt u/s 10(13A) up to least of the following:			
(a) Actual HRA received			
(b) 50% of Salary [i.e. 50% of Rs. 7,20,000]		1,35,000	
(c) Rent paid (-) 10% of Salary		360,000	
(i) Rent Paid [Rs. 10,000 p.m. x 9]	90,000		
(ii) 10% of Salary [i.e. 10% of Rs. 7,20,000]	(72,000)	18,000	(18,000)
Taxable Value of House Rent Allowance			1,17,000

(2) Taxable Value of Gratuity

Gratuity actually received			20,51,640
Less: Exempt u/s 10(13A) up to least of the following:			
(a) Actual Gratuity received	20,51,640		
(b) Maximum Limit	20,00,000		
(c) $15/26$ (x) Last Drawn Salary p.m. (x) No. of years of service [15/26 (x) Rs. 80,000 (x) 34 years]	15,69,231		
			(15,69,231)
Taxable Gratuity			4,82,409

(3) Taxable value of Commuted Pension

Since Mr. Anand is a non-government employee who is in receipt of gratuity, exemption u/s 10(10A) in respect of commuted pension would be available to the extent of 1/3rd of the fully commuted pension. And the amount of taxable commuted pension would be computed in the following manner:

Amount of Commuted Pension Received			4,50,000
Less: Exempt u/s 10(10A) up to least of the following:			
(a) Actual Commuted Pension received	4,50,000		
(b) Maximum Amount of exemption - $\frac{1}{3}$ rd of (Rs. 450,000 (x) $\frac{100}{75}$)	(2,00,000)		
			(2,00,000)
Taxable Amount of Commuted Pension			2,50,000

(4) **Accumulated balance of recognized provident fund (RPF)**

Since Mr. Anand has rendered a continuous service for a period of 5 years or more (i.e. 33 years and 7 months) in M/s XYZ Ltd; Rs. 6,00,000; representing the accumulated balance of RPF, received on retirement by him is therefore fully exempt u/s 10(12).

Answer 20

Solution 1:

Name of the Assessee: Mr. M

Status: Individual - ROR

PAN: _____

P.Y. : _____

A.Y.: _____

Computation of Income under the head Salary

Particulars	Rs.	Rs.
Basic Salary [(Rs. 20,000 × 5) +(Rs. 25,000 × 7)]		275,000
Conveyance Allowance (Rs. 2,000 × 12)	24,000	
Less : Exemption u/s 10(14) shall be least of following:		
(a) Maximum Amount as per Income Tax Rules, 1962 -		
19,200		
(b) Amount Actually Received	24,000	
	(19,200)	4,800
Children Education Allowance [Rs. 500 p.m. for 2 children for 12 months] or [Rs. 250 p.m.p.c. (x) 2 (x) 12]	6,000	
Less : Exemption u/s 10(14) shall be least of following:		
(a) Maximum Amount as per Income Tax Rules, 1962		
[Rs. 100 p.m.p.c. (x) 2 (x) 12]	2,400	
Amount Actually Received	6,000	
	(2,400)	3,600
City Compensatory Allowance [Rs. 300 × 12] - [Fully Taxable]		3,600
Children Hostel Expenditure Allowance [Rs. 380 p.m. for 2 children for 12 months] or [Rs. 190 p.m.p.c. (x) 2 (x) 12]	4,560	
Less : Exemption u/s 10(14) shall be least of following:		
(a) Maximum Amount as per Income Tax Rules, 1962		
[Rs. 300 p.m.p.c. (x) 2 (x) 12]	7,200	
(b) Amount Actually Received	4,560	
	(4,560)	NIL
Tiffin Allowance - [Fully Taxable] - [Note 1]		5,000
Tax on employment paid by the employer - [Note 2]		2,500

Employer's contribution to recognized provident fund in excess of 12% of salary [15% (-) 12% i.e. 3% of Rs. 2,75,000]		8,250
Gross Taxable Salary		3,02,750
Less : Deduction u/s		
16(ia) – Standard Deduction	(50,000)	
16(ii) – Entertainment Allowance	NIL	(52,500)
16(iii) – Tax on employment - [Note 2]	(2,500)	
Income under the head Salary		2,50,250

Note:

- (1) Tiffin Allowance is fully taxable, any amount spent out of such allowance has to be ignored. Hence, actual expenses on tiffin amounting to Rs. 3,700 have been ignored.
- (2) As per section 17(2)(iv), a 'perquisite' includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of Rs. 2,500 paid by the employer is taxable as a perquisite in the hands of Mr. M. Further, as per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year. Therefore, in the present case, the professional tax paid by the employer on behalf of the Mr. M amounting to Rs. 2,500 is first included in the salary and deduction of this professional tax is then provided from the gross taxable salary.

Answer 21

Name of the Assessee: Mrs. Chitralkha

Status: Individual – ROR

PAN: _____

P.Y. : _____

A.Y. : _____

Computation of Income under the head Salary

Particulars		Rs.
Basic salary (Rs. 54,000 × 12)		6,48,000
Dearness allowance (Rs. 2,000 × 12)		24,000
Entertainment allowance (Rs. 24,500 × 12)		2,94,000
Special allowance (Rs. 50,000 × 12)		6,00,000
House rent allowance	Rs. 1,08,000	
Less: Exempt u/s 10(13A) - [WN 1]	(Rs. 1,08,000)	Nil
Helper allowance (Rs. 5,000 × 12)		60,000

Employer's contribution towards RPF in excess of 12% of salary [i.e. (Rs. 7,000 × 12) - 12% of (Rs. 6,48,000 + Rs. 24,000)]	3,360
Interest credited in RPF A/c in excess of 9.5 % (i.e. Rs. 30,000/12 × 2.5)	6,250
Motor Car Facility [Rs. 1,37,800 + Rs. 12,600]	1,50,400
Free Lunch [(Rs. 55 - Rs. 50) × 100]	500
Free Club Facility	52,100
Gross Taxable Salary Less:	18,38,610
Deductions u/s 16	(50,000)
Income from Salary	17,88,610

Note:

- (1) Amount of deduction in respect of HRA u/s 10 (13A) is determined on the basis of the least of the following:
- Rs. 3,36,000 [being 50% of salary (i.e. Rs. 6,48,000 + Rs. 24,000)];
 - Rs. 1,08,000 (being the house rent allowance actually received); and
 - Rs. 1,24,800 [being the excess of rent paid over 10% of salary [(Rs. 16,000 × 12) less 10% of (Rs. 6,48,000 + Rs. 24,000)].
- Rs. 1,08,000**, being the least of the above three sums, is exempt from tax u/s 10(13A).
- (2) Helper Allowance for domestic purpose is chargeable to tax. Helper allowance for engaging a helper for official purposes is, however, exempt u/s 10(14) to the extent it is utilised for this purpose.

INCOME FROM HOUSE PROPERTY

Introduction:

This chapter deals with income which falls under the head “Income from house property”. While the scope of the income charged under this head is defined by section 22, the computation of income falling under this head is governed by sections 23 to 27. All the provisions having a bearing on tax treatment of income from house property are explained in this chapter.

What is the basis of Charge (Sec. 22)

Section 22 specifies three conditions. All these 3 conditions must be satisfied by a property to be treated as House property. These conditions are:

- (1) The property must consist of buildings or lands appurtenant thereto
- (2) The assessee must be the owner of such house property (owner includes deemed owner)
- (3) The property must not be utilised by the owner for his own business or profession whose income is chargeable to income tax

Analysis of Section 22

- (a) Building includes not only Residential Building but also Factory Building, Offices, Shops, Godowns and other Commercial Premises where these are let out on floor area basis
- (b) Land Appurtenant means land **connected** to building, like garden, garage, etc. The appurtenant land in respect of a residential building may be in the form of approach roads to and from public streets, compounds, courtyards, gardens, cattle-shed etc. The owner cannot apportion rent received from tenant. He should consider entire rent as belonging to house property.
- (c) **Vacant Plot:** Vacant plot without any building cannot be treated as building and thus, income from such vacant plot is not taxable u/s 22, but u/s 56 as Income from Other Sources.
- (d) **Buildings/ staff quarters** let out to employees / allotted to employees as rent free

accommodation are treated as business premises. Hence they cannot be considered as house properties u/s 22. Income from such property, if any, is incidental income from business, as the intention is to enhance or maintain the existing business.

- (e) Income from subletting is not income from house property because of absence of ownership unless tenant is deemed owner u/s 27.
- (f) **Dispute in title of property:** In case there is dispute in relation to ownership of the property, the income therefrom shall be assessed according to decision taken by Income tax department considering factors like receipt of such income & occupier of the property.
- (g) **Foreign property:** If the property is situated outside India & income is also received outside India, it is brought to tax in India provided the assessee is R & OR (Resident in India in case of assesseees other than Individual & HUF). Income should be calculated as per provisions of Income Tax Act by converting the relevant foreign currency into INR at the rate prevailing on the last day of the previous year (i.e. closing TT buying rate) if income is earned in foreign currency.

Section 23 Computation of Net annual Value	Certain Concepts
<p>For Calculating net annual value, house property must be classified as Let Out Property (LOP) or Self Occupied Property (SOP) or Deemed to be Let Out Property (DLOP)</p> <ul style="list-style-type: none"> ➤ Section 23 (1) deals with Net Annual Value of LOP ➤ Section 23(2) deals with Net Annual Value Of SOP & ➤ it also says that NAV of SOP must be Nil ➤ Section 23 (3) rules that if a property is let out for part of the year & self - occupied for part of the year it should be classified as LOP & its NAV must be calculated according to provisions of Section 23(1). 	<p>1. Municipal Value/MV is</p> <p>That value that the Municipal Authorities deem as the estimated annual rent of property for the purpose of assessment of Property Taxes.</p> <p>Mun Tax = % X Municipal Value</p> <p>2. Fair Rent/FR of the property is the rent fetched by a similar property, in same or similar locality, with same facilities. Generally it is estimated by approved valuer.</p>

<p>➤ Section 23 (4) rules that if owner occupies more than two properties owned by him as SOP, any two properties at his choice should be considered as SOP & its NAV should be according to section 23 (2) (i.e Zero NAV) & remaining SOPs should be deemed to be let out (D.L.O.P.) & their NAV should be according to Section 23 (1)</p>	<p>3. Standard Rent/SR SR is the maximum rent which a person can recover from the Tenant, under the Rent Control Act.</p>
<p>GROSS ANNUAL VALUE (G.A.V.) (Section 23)</p>	
<p>(a) Annual letting value (A.L.V.) / Reasonable letting value (R.L.V.) of the property for the whole year, i.e. higher of fair rent and municipal value, subject to standard rent under the Rent Control Act (if applicable).</p>	
<p>(b) Actual rent received / receivable for the period and portion actually let out, less any unrealised rent, if any.</p>	
<p>(c) Amount at (b) above, plus any rent for the period the property was vacant. If (c) < (a), (a) is G.A.V. If (c) > = (a), (b) is G.A.V.</p>	

Section 23 as per Act	Unrealised Rent
<p>For the purposes of section 22, the annual value of any property shall be deemed to be -</p>	<p>As per Rule 4, the unrealised rent is the amount of rent payable but not paid by a tenant</p>
<p>(a) the sum for which the property might reasonably be expected to let from year to year; or</p>	<p>of the assessee and so proved to be lost and irrecoverable.</p>
<p>(b) where the property or any part of the property is let and the actual rent received or receivable by the owner in respect thereof is in excess of the sum referred to in clause</p>	<p>It shall be deducted from AR only if following conditions are satisfied –</p>
<p>(a), the amount so received or receivable; or</p>	<p>(a) The tenancy is bonafide;</p>

<p>(c) where the property or any part of the property is let and was vacant during the whole or any part of the previous year and owing to such vacancy, the actual rent received or receivable by the owner in respect thereof is less than the sum referred to in clause (a), the amount so received or receivable.</p>	<p>(b) The defaulting tenant has vacated or steps have been taken to compel him to vacate the property;</p> <p>(c) The defaulting tenant is not in occupation of any other property of the assessee; and</p>
<p>Provided that the taxes levied by any local authority in respect of the property shall be deducted (irrespective of the previous year in which the liability to pay such taxes was incurred by the owner according to the method of accounting regularly employed by him) in determining the annual value of the property of that previous year in which such taxes are actually paid by him.</p>	<p>(d) The assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless.</p>
<p>Explanation - For the purposes of clause (b) or clause (c) of this sub-section, the amount of actual rent received or receivable by the owner shall not include, subject to such rules as may be made in this behalf, the amount of rent which the owner cannot realise.</p>	

Self-Occupied Property (SOP) or Property Reserved for Self Occupancy –

A SOP can be

(a) Self Occupied House Property (now even 2 house properties in different building structures), its NAV will be exempt u/s 23(2) (a).

OR

(b) Self Occupied Property kept vacant / reserved by the Assessee due to employment or carrying on Business or Profession in any other place, and cannot use such a property at the native place, its NAV will be exempt u/s 23(2)(b).

The SOP must satisfy following conditions :

- (a) The property was not let out for any part of the previous year.
- (b) No other benefit is derived from the property.

NAV of two SOP is always NIL. Thus regarding SOP, the following are irrelevant:

- Municipal value
- Fair Rent
- Standard rent
- Municipal taxes

Deemed to be let out property-Section 23 (4)

If an owner owns & occupies more than two house properties for self-residence, the benefit of section 23(2) can be granted in case of two house properties only & remaining such properties are deemed to be let out (DLOP) .

Annual value of such DLOP should be calculated u/s 23(1)(a) i.e. ALV only.

GAV of DLOP: Municipal Value p.a & Fair rent p.a. whichever is more is designated as Expected rent.

Expected rent or Standard Rent whichever is less is GAV for DLOP.

Sec.23 (5): Where the property consisting of any building or land appurtenant thereto is held as stock-in-trade (constructed / purchased for selling the property) and the property or any part of the property is not let during the whole or any part of the previous year, the annual value of such property or part of the property, for the period up to TWO years from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority, shall be taken to be nil.”

Note : If it is the business of the assessee to buy property and give it on rent, then income from such property will be taxable under “Income from business and profession”, as per judgement of Supreme Court in case of “Rayala Corporation Pvt. Ltd. v/s Assistant Commissioner of Income tax”.

DEDUCTIONS AVAILABLE FROM NET ANNUAL VALUE (N.A.V.) [Sec. 24]:

After determining Net Annual Value of the house property, deductions U/s 24 must be given. These are as below:

(1) Standard Deduction.

It is 30% of Net annual value. It is standard amount in respect of expenses connected with house property excluding interest on borrowed capital.

Thus assessee cannot get separate deduction for expenses like insurance premium, lease rent, annual charge, repairs, land revenue etc. If such actual expenses are given these should be ignored altogether.

(2) Interest On Borrowed Capital.

- (i) Interest on borrowed capital is allowable as deduction on accrual basis if capital is borrowed for the purpose of construction, repair, renewal, reconstruction or acquisition of the house property. (CRRRA)
- (ii) As the deduction is available on “accrual basis” it should be claimed as deduction on yearly basis, even if the interest is not actually paid during the year.
- (iii) Interest on unpaid interest / Interest on Interest is not deductible.
- (iv) Interest on a fresh loan taken to repay the original loan raised for the aforesaid purposes, is allowable as deduction.
- (v) Pre-construction period interest is allowed at 1/5 of the interest over 5 years.
- (vi) **NO DEDUCTION** for Interest on loan remitted abroad / sent abroad without deducting tax at source in India -Section 25.
- (vii) **NO DEDUCTION** if the loan is taken for purposes other than construction, repair, renewal, reconstruction or acquisition of the house property.(CRRRA). Thus if the loan is taken for personal purposes like for children’s marriage, education etc. or business purposes, no deduction should be made.
- (viii) Brokerage / Commission for arranging a loan, is not deductible.

Interest on loan for L.O.P. / D.L.O.P. / L.O.P. with S.O.P

The actual interest due is fully allowed as a deduction under section 24(b) without any maximum limit.

Interest on loan for S.O.P.

The maximum deduction can be either ₹ 30,000 or ₹ 2,00,000. Deduction in no case i.e. House 1 and House 2 aggregate interest due cannot exceed either 30,000 or 2,00,000 whichever maximum permissible limit is applicable.

When SOP interest maximum is ₹ 2,00,000?

If following 4 conditions are simultaneously satisfied, the deduction for interest can be maximum ₹ 2,00,000.

1. The loan should be taken on or after 1-4-1999.
2. Loan must be for Construction or Acquisition of SOP.
(Loan should not be for Reconstruction, Repair or Renovation)
3. The date of completion of construction or the date of acquisition should be within 5 years from the end of the Financial Year in which the loan is taken.

E.g.:	Loan taken on	20 Aug 2018
	FY end	31 Mar 2019
	Add 5 years	31 Mar 2024

If the construction or acquisition is completed within 31 March 2024, the maximum deduction is ₹ 2,00,000. Otherwise it is ₹ 30,000 only.

4. Certificate of Interest from lender is obtained.

If anyone the conditions is not satisfied, the maximum interest in case of SOP is only ₹ 30,000.

Pre-construction Interest / Prior Period Interest :

The deduction for Interest on borrowed capital will also include Pre-construction Period Interest. Pre-Construction Period Interest means the interest for the period prior to completion of construction or acquisition of the house property. It is calculated as follows:

$$\text{Pre-Construction Period Interest} = \left. \begin{array}{l} \text{outstanding} \\ \text{loan amount} \end{array} \right\} \times \text{rate of Interest p.a} \times \text{Pre-Construction Period}$$

Pre-construction Period

From: Date of taking loan

To: A day prior to the P.Y. in which the construction / acquisition is completed.

The pre-construction period interest shall be allowed in five equal annual installments (i.e. 1/5 each year) starting from the P.Y. in which construction or acquisition is completed.

Thus within first five years:

Actual Interest = Interest for Previous Year + 1/5 x PCPI

After first five years:

Actual Interest = Interest for Previous Year

Tax Treatment Of Recovery of Arrears of Rent and Recovery of Unrealised rent U/s 25A

Meaning: Arrears of Rent means the disputed rent belonging to earlier financial years, or receipt of past period rent when retrospective increase is accepted by tenant.

If the tenant had not paid rent for any past period, it is termed as unrealised rent. Subsequently, if the tenant pays the unrealised rent, either fully or partly, it will be the owner's income in the year of recovery.

Chargeability: Receipt of Arrears of Rent and recovery of unrealised rent will be chargeable to tax under the head Income from House Property only.

Year of Taxability: It is taxable as income of the financial year in which the arrears or unrealised rent are received.

Ownership not a condition: It will be taxable in the hands of the assessee, even if he does not own the property in the year of recovery.

Deduction: A standard deduction of 30% of the amount of arrears received or unrealised rent received will be allowed as deduction. Any other expenses cannot be deducted.

CO-OWNERSHIP Section 26:

Where a property is owned by two or more persons jointly and their respective shares are definite and ascertainable, income from such property **shall not be assessed on such persons as association of persons (A.O.P)**, but the shares of each such person from the property shall be included in his respective total income.

If any portion of the house belonging to a co-owner is occupied by him for his own residence, that portion will be treated as self - occupied house and its annual value will be NIL i.e. it will be exempt from tax and each co-owner is entitled to interest deduction within a maximum limit of 30,000 / 2,00,000 as the case may be for his unit /units u/s 24(b).

If any property or part of such a property belonging to the co-owners is let out, then the income will be calculated as per L.O.P. provisions as if such a property or part interest is owned by one owner only and the final computed income or loss will be distributed amongst each co-owner as per their co-ownership ratio.

The S.O.P. NIL / Loss along with the L.O.P. share, is the income from house property of each co-owner.

DEEMED OWNERS [Section 27]

As per Section 27 following persons will be deemed to be the owner of the property and hence responsible for payment of tax under this head:

- (1) An individual who transfers house property without adequate consideration to his or her spouse (not being a transfer in connection with an agreement to live apart) or to his minor child (not being a married daughter).
- (2) A member of a co-operative society, company or other association of persons, to whom a building is given under a house building scheme of the organisation.
- (3) Any person who is allowed to retain possession of any building as per section 53A of the TRANSFER OF PROPERTY ACT, 1882.

Sec. 53A comes into operation only if the following conditions are satisfied :

- (a) There should be a contract for consideration, in the writing, duly signed, in relation to transfer of immovable property.
- (b) The transferee should have taken the possession of the property.
- (c) The transferee has performed or is willing to perform his part of the contract. The transferee shall be considered to be the owner, even if the **instrument of transfer is not registered.**

- (4) The holder of an impartible estate is deemed to be the owner of all the properties comprised in the estate.

E.g.: Mr. A has a property consisting of 6 flats and a terrace. He divided his 6 flats amongst his 6 sons. Ownership of terrace has not been transferred but given to eldest son.

However, remaining 5 sons are having the right to enjoy the benefit. In such a case the eldest son shall be treated as holder of an impartible asset i.e. terrace.

- (5) A person who acquires any right (excluding any rights by way of a lease from month to month for a period not exceeding one year) in or with respect to any building or part thereof by virtue of a transfer by way of lease for a term of not less than 12 years. (Whether fixed originally or there a provision for extension of term and the aggregate period is not less than 12 years).

CLASSWORK PROBLEMS

“Unless specifically mentioned, the provisions of section 115BAC is not to be considered.”

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Compute GAV

PARTICULARS	₹	₹	₹	₹	₹
M.V.	30,000	30,500	30,000	40,000	70,000
F.R.	32,500	33,000	32,250	39,000	75,000
SRRCA	29,750	29,500	31,500	42,500	60,000
Actual rent received	33,000	24,938	21,000	27,000	8,000
Property Vacant in months	1	1 1/2	5	3	10
Vacancy rent	3,000	3,562	15,000	9,000	40,000

Question 2

You are required to calculate interest on pre-construction period in respect of following assesses:

Assesses	A	B	C
Date of Taking loan	1 Jun 2017	11 April 2023	15 Oct 2019
Date of Starting Construction	1 Nov 2017	31 March 2023	1st Dec 2019
Date of Complete of Construction	10 Aug 2023	20 Jan 2024	20 July 2023
Amount of Loan	12,00,000	5,00,000	23,00,000
Rte of interest p.a.	12%	15%	13.5%
Pre- Construction Period:			
From			
To			
Pre-Construction Period (in month)			
Interest (in ₹)			

Question 3

Ganesh has a property whose municipal valuation is 2,50,000 p.a. The fair rent is 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is 2,10,000 p.a. The property was let out for a rent of 20,000 p.m. However, the tenant vacated the property on 31.1.2024. Unrealised rent was 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @ 8% of municipal valuation. Interest on borrowed capital was 65,000 for the year. Compute the income from house property of Ganesh for A.Y.2024-25.

Question 4

Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is 25,000 p.m.

The municipal valuation is 23,000 p.m. Municipal taxes paid is 8,000. The house construction began in February 2016 with a loan of 20,00,000 taken from SBI Housing Finance Ltd. The construction was completed on 30.11.2019. The accumulated interest up to 31.3.2019 is 1,50,000. During the previous year 2023 - 24, Poorna paid 2,40,000 which included 1,80,000 as interest. Compute Poorna's income from house property for A.Y. 2024-25.

Question 5

Mr. Suraj has one house property consisting of identical units. Unit 1 is SOP throughout the year and Unit 2 is LOP for 5 and a half month at 30000 p.m. and SOP for 6 months and vacant for half month. One month rent could not be realized as per rules. Fair rent and municipal value of entire house is Rs. 27000 p.m. and 26000 p.m. respectively. Standard rent under the Rent Control Act is 30000 p.m. Municipal taxes for the entire house payable is rs. 22000 whereas paid is only rs. 20000/-. Interest on loan due (loan taken on 5.5.98) is Rs 65000 for financial year 2023-24. Compute income from house property.

Question 6

Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2023-24. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is \$20,000. The value of one USD (\$) may be taken as 60.

She took ownership and possession of a flat in Chennai on 1.7.2023, 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 31.3.2024. The municipal valuation is 32,000 p.m. and the fair rent is 4,20,000 p.a. She paid the following to Corporation of Chennai:

Property Tax	16,200
Sewerage Tax	1,800

She had taken a loan from Standard Chartered Bank for purchasing this flat. Interest on loan was as under:

	₹
Period prior to 1.4.2023	49,200
1.4.2023 to 30.6.2023	50,800
1.7.2023 to 31.3.2024	131300

She had a house property in Bangalore, which was sold in March, 2015. In respect of this house, she received arrears of rent of 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 assessment year 2024-25, exercising the most beneficial option available.

Question 7

Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 1998-1999. 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 12,000 per month per unit. The municipal value of the house property is 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

		₹
(i)	Repairs	40,000
(ii)	Insurance premium (paid)	15,000
(iii)	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 2,90,000 and 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 assessment year 2024-25.

Question 8

Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is ₹ 5,00,000, fair rent is ₹ 4,20,000 and standard rent is ₹ 4,80,000. The property was let-out for ₹ 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 months 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 ₹ 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.

Question 9

Prem owns a house in Madras. During the previous year 2023-24, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes of a rent of ₹ 8,000 p.m. Municipal value of the property is ₹ 3,00,000 p.a. He paid municipal taxes @ 10% of municipal value during the year. A loan of ₹ 25,00,000 was taken by him during the year 2019 for acquiring the property. Interest on loan paid during the previous year 2023-24 was ₹ 1,20,000. Compute Prem's income from house property for the A.Y. 2024-25.

Question 10

Mr Rajesh owns a residential house, let out for a monthly rent of ₹ 15,000. The fair rental value of the property for the let out period is ₹ 1,50,000. The house was self-occupied by him from 1st January, 2024 to 31st March, 2024. He has taken a loan from bank of ₹ 20 lacs for the construction of the property, and has repaid ₹ 1,05,000 (including interest ₹ 40,000) during the year.

Compute Rajesh's income from house property for the Assessment Year 2024-25.

HOMEWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96.,000, ₹ 1,26,000 and Rs. 1,08,000 (per annum), respectively.

During the Financial Year 2023-24, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @ 11% of municipal value was paid during the year.

The construction of the house began in June, 2016 and was completed on 31-5-2019.

Vikas took a loan of ₹ 1,00,000 on 1-7-2016 for the construction of building.

He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the Assessment Year 2024-25.

Answer

Computation of income form house property of Mr. Vikas for the A.Y. 2024-25.

	Particulars	₹	₹
	Income from house property		
I.	Self-occupied portion (Two third)		
	Net Annual value	Nil	
	Less: Deduction under section 24(b)		
	Interest on loan (See Note below) (₹ 18,600 × 2/3)		12,400
	Loss from self-occupied property		(12,400)
II.	Let-out portion (One third)		
	Gross Annual Value		
	(a) Actual rent received (₹ 5,000 × 12)	₹ 60,000	
	(b) Expected rent	₹ 36,000	
	[higher of municipal valuation (i.e., ₹ 96,000) and fair rent (i.e., ₹ 1,26,000) but restricted to standard rent (i.e., ₹ 1,08,000)] = ₹ 1,08,000 × 1/3	60,000	
	Higher of (a) or (b)		
	Less: Municipal taxes ₹ 96,000 × 11% × 1/3	3,520	
	Net Annual Value	56,480	
	Less: Deductions under section 24		
	(a) 30% of NAV	16,944	
	(b) Interest on loan (See Note below) (₹ 18,600 × 1/3)	6,200	13,336
	Income from house property		20,936

Note: Interest on loan taken for construction of building

Interest for the year (1.4.2023 to 31.3.2024) = 12% of ₹ 1,00,000 = ₹ 12,000

Pre-construction period interest = 12% of ₹ 1,00,000 for 33 months (from 1.7.2016 to 31.3.2019) = ₹ 33,000

Pre-construction period interest to be allowed in 5 equal annual installments of ₹ 6,600 from the year of completion of construction i.e. from FY. 2019-20 till FY. 2023-24.

Therefore, total interest deduction under section 24 = ₹ 12,000 + ₹ 6,600 = ₹ 18,600.

Question 2

Mr. N is the owner of three house properties in Delhi, particulars in respect of which for the year ended 31.3.2024 are as below:

Particulars	I House	II House	III House
(i) Construction started on	1.4.1994	1.8.1994	1.7.1989
(ii) Construction completed on	31.12.1995	31.1.1995	31.12.1990
	Amount (₹)	Amount (₹)	Amount (₹)
Actual Rent received	3,50,000	1,90,000	self-occupied
Standard Rent	4,50,000	4,00,000	N.A.
Municipal Value	6,00,000	1,90,000	2,78,000
	Amount (₹)	Amount (₹)	Amount (₹)
Municipal Taxes (paid by owner)	60,000	19,000	1,20,000
Cost of repairs (borne by tenant)	10,000	70,000	
Collection charges	15,000	13,000	
Insurance premium	10,000	12,000	26,000
	(Paid)	(Not paid)	
Interest on loan taken for renovation of house	24,000	30,000	60,000
Unrealised rent allowed in the past, recovered during the year	20,000		

Mr. N, resided in Bombay for three months during the previous year in connection with his business and for all these months the house remained vacant. During the period of his stay in Delhi he did not occupy any other house of his own. Compute Mr. N's "Income from house property" for the assessment year 2024-25.

Answer

Particulars		I		II	III
		(₹)		(₹)	(₹)
Gross annual value		4,50,000		1,90,000	
Less: Municipal taxes		(60,000)		(19,000)	–
Net annual value		3,90,000		1,71,000	
Less: Deductions u/s 24				–	–
(a) Standard deduction @ 30%	1,17,000		51,300		
(b) Interest	24,000	(1,41,000)	30,000	(81,300)	(30,000)
		2,49,000		89,700	(-) 30,000

Particulars		Amount (₹)
House I		2,49,000
House II		89,700
House III		(-) 30,000
		3,08,700
Add: Unrealised rent		
Recovered	20,000	
Less: Standard deduction	(6,000)	14,000
Income from House Property		3,22,700

Question 3

Mr. X is the owner of a residential house, whose construction was completed on 31.8.1996. It has been let out from 1.12.1996 for residential purposes. Its particulars for the financial year 2023-24 are given below:

S. No.	Particulars	Amount (₹)
(i)	Municipal valuation	55,000
(ii)	Expected fair rent per annum	60,000
(iii)	Standard rent under the Rent Control Act	6,000 p.m.
(iv)	Actual monthly rent	6,000 p.m.
(v)	Municipal taxes (including ₹ 5,000 paid by tenant) paid	1,5000
(vi)	Water/sewage benefit tax levied by State Government but disputed in Court	6,000

(vii)	Fire Insurance payable	800
(viii)	Interest on loan taken for the construction of the house.	
	The interest has been paid outside India to a non-resident without deduction of tax at source, as the non-resident agreed to pay income tax on such interest directly to the Government	10,000
(ix)	Legal charges for the recovery of rent	4,000
(x)	Stamp duty and registration charges incurred in respect of the lease agreement of the house	2,000

Compute his income from house property for the assessment year 2024-25.

Answer

Particulars	Amount (₹)	Amount (₹)
Gross Annual Value, higher of the following two		72,000
(a) Municipal value (₹ 55,000), Fair rent (₹ 60,000) whichever is more but restricted to standard rent	60,000	
(b) Actual rent received or receivable (6,000 x 12)	72,000	
Less: Municipal taxes		(10,000)
Net annual value		62,000
Less: Standard deduction @ 30% u/s 24(a)		(18,600)
Income from House Property		43,400

Question 4

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

Particulars	House I	House II	House III
Municipal valuation p.a.	₹ 3,00,000	₹ 3,60,000	₹ 3,30,000
Fair rent p.a.	₹ 3,75,000	₹ 2,75,000	₹ 3,80,000
Standard rent p.a.	₹ 3,50,000	₹ 3,70,000	₹ 3,75,000
Date of completion/purchase	31.3.1999	31.3.2001	01.4.2015
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 July 2019 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.

Answer

Let us first calculate the income from each house property assuming that they are deemed to be let out.

Computation of income from house property of Ganesh for the A.Y. 2024-25.

Particulars	Amount in ₹		
	House I	House II	House III
Gross Annual Value (GAV)			
ER is the GAV of house property			
ER = Higher of MV and FR, but restrict-ed to SR	3,50,000	3,60,000	3,75,000
Less: Municipal taxes (paid by the owner during the previous year)	(36,000)	(28,800)	(19,800)
Net Annual Value (NAV)	3,14,000	3,31,200	3,55,200
Less: Deductions under section 24			
(a) 30% of NAV	(94,200)	(99,360)	(1,06,560)
(b) Interest on borrowed capital		(55,000)	(1,75,000)
Income from house property	2,19,800	1,76,840	73,640

Ganesh can opt to treat any two of the above house properties as self-occupied. **OPTION 1 (House I and II– self-occupied and House III – deemed to be let out)** If House I and II are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in ₹
House I (Self-occupied)	Nil
House II (Self-occupied) (interest deduction restricted to ₹ 30,000)	(30,000)
House III (Deemed to be let-out)	73,640
Income from house property	43,640

OPTION 2 (House I and III – self-occupied and House II – deemed to be let out) If House I and III are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in ₹
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	1,76,840
House III (Self-occupied)	(1,75,000)
Income from house property	1,840

OPTION 3 (House II and III – self-occupied and House I – deemed to be let out) If House II and III are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in ₹
House I (Deemed to be let-out)	2,19,800
House I (Deemed to be let-out)	
House II (Self-occupied) (interest deduction restricted to ₹ 30,000) (30,000)	
House III (Self-occupied) (1,75,000)	
(Total interest deduction of 2,05,000 restricted to ₹ 2,00,000 maximum allowed)	(2,00,000)
Income from house property	19,800

Since Option 2 is most beneficial, Ganesh should opt to treat House I and III as self-occupied and House II as deemed to be let out. His income from house property would be ₹ 1,840 for the A.Y. 2024-25.

PROFITS & GAINS FROM BUSINESS OR PROFESSION

Basis of Charge – [Section 28]

General Charge:

As per the provisions of section 28(i) ;

- profits & gains;
- derived from any business or profession;
- carried on by the assessee;
- at any time during the previous year;
- shall be charged to tax under the head 'PGBP'.

In other words, all the following conditions must be satisfied in order to bring any income under the purview of this head:

- ✓ there should be a **business or profession**;
- ✓ such business or profession must be **carried on by the assessee**; and such business or profession must be carried on **at any time during the previous year**.

Specific Charge:

Certain incomes are specifically charged to tax under the head 'PGBP' only and those incomes are discussed as under:

- (1) Any **compensation or any other payments** due to or received by any person:
 - (a) for termination or modification of **managing agent's agreement** in relation to an Indian company or any other company for its affairs in India.
 - (b) for termination or modification of **contract relating to an agency** in India.
 - (c) for **vesting of management of any property or business** with Government or any Corporation owned or controlled by the Government.
 - (d) **at or in connection with the termination or modification of the terms and conditions, of any contract relating to his business.**
- (2) Income derived by any **trade, professional or similar associations from specific services rendered to its members.**

- (3) **Incentives** received or receivable by assessee carrying on **export business**:
- (a) profit on sale of **import entitlements**.
 - (b) **cash assistance** against exports.
 - (c) customs duty or excise duty re-paid or repayable as Duty Drawback
 - (d) profit on transfer of **Duty Entitlement Pass Book (DEPB) or Duty Free Replenishment Certificate (DFRC)**.
- (4) **Value of any benefit or perquisite** arising from business or the exercise of a profession, whether convertible into money or not or in cash or in kind or partly in cash and partly in Kind.
- (5) Any **interest, salary, bonus, commission or remuneration, by whatever name called, due to or received by a partner of a firm from such firm** to the extent allowed to the firm.
- (6) Any sum received or receivable, in cash or kind:
- (a) **for not carrying out any activity in relation to any business or profession**;
However, following sums received or receivable shall not be chargeable to tax under the head 'PGBP':
 - (i) any sum, whether received or receivable, in cash or kind, on account of transfer of the right to manufacture, produce or process any article or thing or right to carry on any business or profession, which is chargeable under the head 'Capital Gains'
 - (ii) any sum received as compensation, from the multilateral fund of the Montreal Protocol on Substances that Deplete the Ozone layer under the United Nations Environment Programme, in accordance with the terms of agreement entered into with the Government of India.
 - (b) **for not sharing any know-how, patent, copyright, trade mark, licence, franchise or any other business or commercial right of similar nature or information or technique likely to assist in the manufacture or processing of goods or provision for services.**
- (7) Any **sum received under a keyman insurance policy (including bonus, if any)** (if the same is not taxable under the head 'Salary' or 'Other Sources').
- (8) Any **sum received or receivable, in cash or kind, on account of any capital asset (in respect of which deduction has been allowed u/s 35AD) being demolished, destroyed, discarded or transferred.**

- (9) FMV of inventory as on the date of its conversion or treatment as capital asset, determined in the prescribed manner, would be chargeable to tax as business income.

Note:

(1) **Business:**

As per section 2(13), the term business includes any (a) trade, (b) commerce; or (c) manufacture; or (d) any adventure or concern in the nature of trade, commerce or manufacture.

The definition of business as given above is an inclusive definition and not an exhaustive one, therefore, the meaning assigned to the term business shall not be restricted merely to the activity of trade, commerce or manufacture.

The activities which constitute carrying of business consist of **rendering of services to others** as the term business in common parlance, denotes some activity, which is carried on by **devoting time, attention and labour** of person with an intention to make **profits**.

Further, the term business is generally understood to be a **systematic and organised course of activity or conduct with a set purpose**, but, an isolated transaction may also be considered as business. The requirement is that it must have an element of trade or profit motive.

(2) **Profession:**

The term 'profession' refers to **an occupation or activity requiring purely intellectual or manual skill on the basis of some special learning**. There should be **some special qualification** of a person apart from skill & ability, which is required in carrying on any activity which could be considered as profession. This could be having education in a particular system either in a college, university or institute or **it may be even by experience**.

Further, as per section 2(36) **profession also includes vocation and the term 'vocation' refers to any activity on which a person spends major part of his time in order to earn his livelihood. Vocation is the activity, which is not done on the basis of knowledge acquired but is performed on account of inborn talent, skills and attributes.**

The distinction between business, profession or vocation is however not material, because the income from all these activities is taxable under the same head i.e. 'PGBP'

- (3) The profits & gains for each business must be computed separately but the tax chargeable under this head is not on the separate income of every distinct business but on the aggregate profits of all the businesses carried on by the assessee during the previous year.

- (4) (a) Revenue receipts are always taxable unless specifically Exempt.
(b) Capital receipts are always exempt unless specifically taxable.
(c) Revenue Exps are always allowed unless specifically disallowed.
(d) Capital Exps are always disallowed unless specifically allowed.
- (5) Revenue receipts are always taxable unless specifically exempt
- (6) Capital receipts are always exempt unless specifically taxable.
- (7) Revenue Exps are always allowed unless specifically disallowed
- (8) Capital Exps are always disallowed unless specifically allowed.
- (9) Profits should be computed after deducting the losses and expenses incurred for earning the income in the regular course of the business, profession, or vocation unless the loss or expenses is expressly or by necessary implication, disallowed by the Income Tax Act, 1961. The charge is not on the gross receipts but on the profits & gains.
- (10) **Cases where the income would not be taxable under the head 'PGBP':**
- (i) **Rental Income from House Property:**
- Rental income from house property is taxable under the head 'House Property' even if it is received by an assessee being a property dealer and the concerned house property forms part of the stock-in-trade of the business of such assessee.
- However, if the residential houses/flats are let out to the employees for the efficient conduct of the assessee's own business and letting of house properties is not the main business of the assessee but it is subservient and incidental to the main business, income from such letting shall be taxable as business income.
- Further, the **Hon'ble Supreme Court in the case of Chennai Properties & Investments Ltd.** has held that rental income from properties of company shall be taxable under the head 'PGBP' and not under the head 'House Property' **if the main object of the company as per its memorandum of association (MOA) is to let-out the properties.**

(ii) **Dividend on Shares:**

Where an assessee carries on the business of dealing in shares and holds such shares as stock-in-trade, then the dividend income on such shares shall be assessed under the head 'Other Sources' as per the specific charge created u/s 56(2)(i) and not under this head.

(iii) **Income from an Activity of owning & maintaining Race Horses:**

Where the assessee carries on the activity of owning & maintaining race horses, any income (after deducting the related expenses) shall be chargeable to tax under the head 'Other Sources'.

(iv) **Casual Incomes:**

Casual Incomes such as winnings from lotteries, crossword puzzles, horse races & game shows etc. shall always be chargeable to tax under the head 'Other Sources' even if the assessee participates in such activities on a regular or continuous basis.

(11) Income derived from any **speculative transaction** shall also be charged to tax under the head 'PGBP'.

Computation of Income under the head 'PGBP' - [Section 29]

- ✓ As per the provisions of section 29, profits & gains chargeable to tax under the head 'PGBP' shall be computed in accordance with the provisions as laid down in sections 30 to 43D.
- ✓ In other words, deductions allowable and disallowances under the head 'PGBP' are to be considered while computing the profits & gains chargeable to tax under the head 'PGBP'.
- ✓ Further, the losses which are incidental to the business or profession of the assessee shall also be allowed to be deducted even though there are no specific provisions with regard to their allowability while computing the profits & gains chargeable to tax under this head.

Note:

As per the provisions of **section 145(1)**, the **incomes under the head 'PGBP' or 'Other Sources'** shall be computed **in accordance with either cash system or mercantile system of accounting, which is regularly followed** by the assessee.

However, as per **section 145(2)**, such **computation shall be made subject to the specific principles as laid down under the Income Computation and Disclosure Standards (ICDS)** which are notified by the Central Government in this regard from time to time - **(to be studied in Final C.A.)**.

In general, there are two ways in which the income under the head 'PGBP' can be computed viz. Indirect Method and Direct Method.

Indirect Method:

The indirect method of computation of income under the head 'PGBP' is normally adopted when the amount of Net Profit/(Loss) or Surplus/(Deficit) as per the Profit & Loss A/c or Income & Expenditure A/c is provided in the question.

Computation of Income as per the Indirect Method:

Particulars	(₹)
Net Profit/(Loss) as per the Profit & Loss A/c	xx
Add: Expenses debited to the Profit & Loss A/c but not allowable under the head 'PGBP'	xx
Less: Incomes credited to the Profit & Loss A/c but not taxable under the head 'PGBP' or Exempt as per the provisions of Income Tax Act, 1961	(xx)
Less: Expenses allowable under the head 'PGBP' but not debited to the Profit & Loss A/c	(xx) xx
Add: Incomes taxable under the head 'PGBP' but not credited to the Profit & Loss A/c	
Income chargeable to tax under the head 'PGBP'	xx

Direct Method:

Direct method of computation of income under the head 'PGBP' is normally adopted when Cash Book, Bank Pass Book, Receipts & Payments A/c is provided in the question i.e. the question does not give any details about the figures of Net Profit/(Loss) or Surplus/(Deficit).

Computation of Income as per the Direct Method:

Particulars	(₹)
Gross Receipts from business or profession carried on by the assessee	xx
Less: Deductions allowable as per the provisions of section 30 to 37	(xx)
Income chargeable to tax under the head 'PGBP'	xx

Provisions to be studied under the head 'PGBP'

Deductions Allowable	Disallowances	Deemed Incomes	Miscellaneous Provisions
Section 30 to 37(1)	Section 37(2B), 38, 40, 40A & 43B	Section 41	Section 43A, 43CA, 44AA, 44AB, 44AD, 44ADA, 44AE

Deductions Allowable - [Section 30 to 37(1)]

Rent, Rates & Taxes, Repairs & Insurance Premium for Building - [Section 30]

Rent, rates & taxes, repairs and insurance premium in respect of a building which is used by the assessee for the purpose of his business or profession shall be allowed as a deduction u/s 30.

Such building may be owned by the assessee or it may have been taken on rent by the assessee.

Deduction u/s 30 shall be allowed in the following manner:

Nature of Expense	Building is owned by the assessee	Building is taken on rent by assessee
Rent - (Note 1)	X	✓
Rates & Taxes - (Note 2)	✓	✓
Insurance Premium for risk of damage or destruction	✓	✓
Repairs - (Note 3)	✓	✓

Note:

(1) If the assessee is the owner of the building and occupies it for his business or profession, then, **no deduction shall be allowed u/s 30 in respect of notional rent of such building.**

However, where a firm runs its business in the building owned by one of its partners, then, the rent payable by the firm to the partner shall be allowable as deduction u/s 30 to the firm to the extent it is reasonable and is not excessive.

If the assessee has sub-let a part of the building, then, the allowance u/s 30 would be limited to the difference between the rent paid by the assessee and the rent recovered from the sub-tenant.

(2) As per the provisions of section 43B, deduction of certain business expenses including rates & taxes in respect of the building used for the purpose of business or profession of the assessee shall be allowed only **if such rates & taxes are actually paid by the assessee on or before the due date of filing the return of income as prescribed u/s 139(1).**

In other words, cost of repairs and current repairs other than of capital nature is allowed as deduction while computing business income.

- (3) **As per the explanation to section 30**, amount paid on account of:
- the cost of repairs to the premises occupied by the assessee as a tenant;
 - and the amount paid on account of current repairs to the premises occupied by the assessee, otherwise than as a tenant **shall not include any capital nature expenditure.**
- (4) As per the provisions of **section 38**, if the **building is used partly for business/profession and partly for purposes other than business/profession**, then, only the **fair proportionate amount** of expenses and depreciation which relates to the use of the building for the purpose of business/profession of the assessee **shall be allowed as a deduction u/s 30.**

Repairs & Insurance Premium for Machinery, Plant and Furniture - [Section 31]

Section 31 allows deduction in respect of the expenses on current repairs and insurance premium of machinery, plant and furniture in computing the income from business or profession.

Deduction u/s 31 shall be allowed in the following manner:

Expense	Asset is owned by the assessee	Asset is taken on rent by assessee
Repairs - (Note 1)	✓	✓
Insurance Premium for risk of damage or destruction	✓	✓

Note:

- (1) Amount paid on account of current repairs of machinery, plant or furniture shall not include any capital nature expenditure.
In other words, current repairs other than of capital nature expenditure is allowed as deduction in the computation of income under the head 'PGBP'.
The term 'repairs' will include renewal or renovation of an asset but not its replacement or reconstruction.

- (2) Rent paid by the tenant for plant & machinery and furniture is not allowed as a deduction u/s 31. However, such rent would be allowed as a deduction u/s 37(1) subject to the fulfilment of conditions specified under that section.
- (3) As per the provisions of section 38, if the machinery, plant or furniture is used partly for business/profession and partly for other purposes, then, only the fair proportionate amount of expenses and depreciation which relates to use of such machinery, plant or furniture for the purpose of business/profession shall only be allowed as a deduction u/s 31.
- (4) Even if the asset is used for a part of the previous year, the assessee is entitled to the deduction of the full amount of expenses on repair and insurance premium and not merely an amount proportionate to the period of use.
However, expenses on repair and insurance of assets which have been discarded (though owned by the assessee) or have not been used for the business during the previous year would not be allowed as a deduction.

Depreciation - [Section 32]

Capital expenditure incurred for the purpose of business or profession of the assessee i.e. **cost of any business asset** is normally not allowed as a deduction in the previous year in which it is incurred.

However, such capital expenditure is **allowed to be deducted in a deferred manner u/s 32 in the form of depreciation.**

Hence, the depreciation which is allowed under Income Tax Act, 1961 is nothing but an allowance of the capital expenditure incurred for the purpose of business or profession of the assessee i.e. cost of purchase of any business asset, in small parts spread over the future years.

Further, the depreciation under the Income Tax Act, 1961, is calculated & claimed in a manner which is different from the manner of computation of depreciation under the financial accounting.

Therefore, claim of depreciation u/s 32 is allowed:

- ✓ on specified assets;
- ✓ owned by the assessee; and
- ✓ used by such assessee during the previous year for the purpose of his business or profession.

Note:

(1) Specified Assets:

- (a) Following assets are specified under the provisions of Income Tax Act, 1961 for claim of depreciation:
- (i) **tangible** assets, being buildings, machinery, plant or furniture; and
 - (ii) **intangible** assets, being know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature, not being goodwill of a business or profession.
- (b) The depreciation in the value of **any other assets** cannot be claimed as a deduction from the business income.
- (c) **No depreciation** is allowable on the cost of the land on which the building is erected because the term 'building' refers only to superstructure but not the land on which it has been erected.
- (d) The term '**plant**' as defined in **section 43(3) includes** ships, books, vehicles, scientific apparatus and surgical equipments used for the purposes of the business or profession but **does not include** tea bushes or livestock or buildings or furniture and fittings.
- Further, 'plant' does not include any animal, human body or stock-in-trade. Thus, 'plant' includes all goods and chattels, fixed or movable, which a businessman keeps for employment in his business with some degree of durability.
- (e) The expression '**plant includes part of a plant like, engine of a vehicle; 'machinery' includes part of machinery and 'building' includes a part of the building.**
- Also, the term 'buildings' includes within its scope roads, bridges, culverts, wells and tubewells.

(2) Assessee to be the owner of the asset:

- (a) The term 'owner' is not defined under the Income Tax Act, 1961. However, the **Hon'ble Supreme Court in the case of Mysore Minerals Ltd.** has held that the term 'owner' for the purpose of claim of depreciation **shall also include the beneficial owner** of the asset and not merely the legal owner of the asset.
- Further, the assessee who takes the possession of the asset and starts using such asset shall be construed to be the beneficial owner of the asset (whether or not the legal documents like registration, title deeds, etc. are in the name of such assessee).

- (b) Depreciation would be **allowable to the owner** even in respect of assets which are actually worked or utilized by another person for example, a lessee or licensee. The deduction on account of depreciation would be allowed under this section to the owner who has let on hire his building, machinery, plant or furniture provided that letting out of such assets is the business of the assessee. In other cases, where the letting out of such assets does not constitute the business of the assessee, the deduction on account of depreciation would still be allowable u/s 57.
- (c) It is also important to note that, as per the explanation 1 to section 32(1), where the business or profession of the assessee is being carried on in a building not owned by him but in a building which the assessee has taken on lease/rent and any capital expenditure is incurred by the assessee for the purpose of business or profession on the construction of any structure or doing of any work, in or in relation to, and by way of renovation or extension of, or improvement to, the building, then, depreciation shall be allowed as if the said structure or work is a building owned by the assessee.
- (d) The **CBDT**, vide various **circulars** has also clarified that in the case of:
- (i) Lease transaction, **lessor shall claim depreciation** on the leased asset;
 - (ii) Hire purchase transaction, **hire purchaser shall claim** depreciation on the asset.
- (3) **Use of the asset by the assessee during the previous year for the purpose of his business or profession:**
- (a) The asset **must be actually put to use** at any time during the previous year. The amount of **depreciation allowance is not proportionate to the period of use during the PY.** However, it has been provided that where any asset is **acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, depreciation** shall be allowed @ 50 % of the allowable rate of depreciation. It is significant to note that this restriction applies only to the year of acquisition and not for subsequent years.
- (b) If the assets are **not used exclusively for the business or profession** of the assessee but for other purposes as well, the **depreciation allowable would be a proportionate part** of the depreciation allowance to which the assessee would be otherwise entitled. This is provided in section 38.

(c) Depreciation is allowed on the assets actually used for the purpose of business or profession (i.e. on the assets actively used). Further, the **depreciation claim is also admissible on the assets which are kept ready for intended use (i.e. on the assets passively used).**

For example, stand by equipment & fire extinguishers, emergency spares kept for replacement in case of failure of the original parts, machinery spares which can be used only in connection with a specific item of tangible fixed asset and their use is expected to be irregular.

Depreciation allowance shall be calculated on the following basis

Section 32(1)(i)	Section 32(1)(ii)	Section 32(1)(iia)	Section 32(1)(iii)
Normal depreciation on SLM basis on actual cost of individual assets in case of assessee engaged in power business	Normal depreciation on WDV basis on the value of block of assets in case of assessee engaged in any business or profession	Additional depreciation on actual cost of eligible assets in case of eligible assessee	Terminal depreciation in case of assessee engaged in power business

Normal depreciation on SLM basis on actual cost of individual assets in case of assessee engaged in power business - [Section 32(1)(i)]

As per the provisions of section 32(1)(i); normal depreciation in case of **assessee engaged in the business of generation or generation & distribution of power;**

- shall be calculated by applying the **rates as prescribed under appendix 1A of rule 5(1A)** of the Income Tax Rules, 1962;
- on the **actual cost of each asset** (i.e. building, machinery, plant or furniture or any intangible asset) owned wholly or partly by the assessee and used for the purpose of business or profession of the assessee;
- on **SLM basis.**

Note:

(1) The assessee engaged in power business have the **option to calculate & claim depreciation on WDV basis on the value of block of assets u/s 32(1)(ii)** instead of calculating & claiming depreciation on SLM basis on actual cost of individual assets u/s 32(1)(i).

However, such option needs to be exercised **on or before the due date of filing the return of income for the previous year in which assessee begins such business.**

Such option once exercised shall be final and shall apply to all the subsequent assessment years. If the option is not exercised, the depreciation shall be allowed only on the basis of SLM on the actual cost of each asset.

(2) If the asset on which depreciation is charged as per section 32(1)(i):

- is **purchased and put to use for a period of less than 180** days during the previous year;
- then, depreciation on such asset shall be allowed **@ 50% of the allowable rate of depreciation** prescribed for such asset.

(3) **Consequences where the assets on which depreciation is claimed on SLM basis are sold:**

(a) **Terminal Depreciation - [Section 32(1)(iii)]:**

- Where an asset on which depreciation is charged on SLM basis as per section 32(1)(i) is sold in any previous year (other than the year in which it was purchased);
- and money received or receivable on sale of such asset including the scrap value (if any) does not exceed its WDV;
- then, a terminal depreciation shall be allowed u/s 32(1)(iii) which will be equal to **WDV of such asset (-) Money received or receivable on sale of such asset.**

Note:

The assessee shall be allowed deduction of terminal depreciation only if such deficiency is written-off in the books of accounts of the assessee.

(b) **Balancing charge - [Section 41(2)]:**

- Where an asset on which depreciation is charged on SLM basis as per section 32(1)(i) is sold in any previous year (other than the year in which it was purchased);
- and money received or receivable on sale of such asset including the scrap value (if any) **exceeds** its WDV;
- then, least of the following amounts shall be charged to tax as balancing charge u/s 41(2):

- Actual Cost (-) WDV i.e. depreciation allowed so far
- Money Receivable (-) WDV

Note:

However, if the money received or receivable on sale of such asset including the scrap value (if any) **exceeds** its actual cost, then, such excess shall be taxable as capital gain in the hands of the assessee.

The resulting capital gains could be long-term or short-term depending up on the period of holding of the asset.

- (c) If an asset on which depreciation is to be charged on SLM basis as per section 32(1)(i) is **sold in the same previous year in which it was acquired**, then, short-term capital gain/loss would arise in the hands of the assessee.
- However, in such case there will be no balancing charge or terminal depreciation.

Normal depreciation on WDV basis on the value of block of assets in case of assessee engaged in any business or profession - [Section 32(1)(ii)]

As per the provisions of section 32(1)(ii); normal depreciation in case of **assessee engaged in any business or profession**;

- shall be calculated by applying the **rates as prescribed under appendix 1 of rule 5(1)** of the Income Tax Rules, 1962;
- on the **written down value of block of assets** (i.e. block of building, machinery, plant or furniture or any intangible asset) owned wholly or partly by the assessee and used for the purpose of business or profession of the assessee;
- on **WDV basis**.

Note:

(1) Block of Assets - [Section 2(11)]

'Block of Assets' means:

- **group of assets falling within a class of assets** comprising of tangible assets, being buildings, machinery, plant or furniture; and intangible assets, being know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature;
- in respect of which the **same percentage of depreciation is prescribed**.

Hence, from the above definition also it is clear that under the Income Tax Act, 1961, there are four classes of assets eligible for depreciation, namely buildings, plant & machinery, furniture & fittings and intangible assets.

Further, each class of assets, other than intangible assets and furniture & fittings has different blocks or groups on which separate rates of depreciation are prescribed.

Therefore, for each such rate separate block shall be formed and for each such block WDV and depreciation shall be calculated and claimed separately.

(2) Rates of Depreciation prescribed under the Income Tax Rules, 1962:

Note:

Land is a non-depreciable asset; therefore, no depreciation is allowed on land.

Furniture & Fittings:

10%

Note:

'Furniture & Fittings' also include electrical fittings like electrical wirings, switches, sockets, fans etc. and other fittings like partition walls & false ceiling etc.

Plant & Machinery:

• General	15%
• Motor Vehicles:	
(i) Motor buses, lorries, vans, trucks, taxis used in the business of running them on hire	30%
(ii) Other than those used in the business of running them on hire	15%
• Books (annual publications or other than annual publications) owned by assessee carrying on a profession	40%
• Books owned by assessee carrying on business of running libraries	40%
• Aircrafts (Aero planes, Aero engines)	40%
• Ships	20%
• Life Saving Medical Equipments	40%
• Computers (including computer software)	

Note:

Computer accessories & peripherals such as printers, scanners, UPS & server etc. form an integral part of the computer system and they cannot be used without the computer. Hence, the allowable rate of depreciation on such assets is 40%.

Further, EPBAX machines & mobile phones are not computers; hence, higher rate of 40% is not available.

• Specified air or water pollution control equipments, solid waste control equipment and solid waste recycling and resource recovery systems	40%
• Specified Renewable Energy Saving Devices	40%
• Wind mills and any specifically designed devices which run on wind mills, Special devices including electric generators and pumps running on wind energy	40%
• Moulds used in rubber and plastic goods factories	30%
• Plant & Machinery used in semi-conductor industry covering all Integrated Circuits (ICs)	30%
• Machinery and plant, acquired and installed on or after the 01.09.2002 in a water supply project or a water treatment system and which is put to use for the purpose of business of providing infrastructure facility	40%
• Oil Wells	15%
Intangible Assets: Know-how, Patents, Copyrights, Trademarks, Licences, Franchises or Any Other Business or Commercial Rights of Similar Nature, not being goodwill of a business or profession.	25%

(3) **Written down value of the block for the purpose of charging depreciation - [Section 43(6)]:**

Particulars	₹
WDV of the block of asset as on 1st April of the previous year	xx
Add: Actual cost of assets acquired during the previous year & put to use for:	xx
(a) 180 days or more	xx
(b) less than 180 days	
Total	xx
Less: Money received/receivable in respect of any asset falling within the block which is sold, discarded, demolished, destroyed, exchanged or compulsorily acquired under any law during the previous year	(xx)
WDV for the purpose of charging depreciation i.e. depreciable value of the block	

(4) As per the **proviso to section 32:**

- where any asset forming part of a block is **acquired and put to use during the previous year** for the purposes of business or profession of the assessee;
- for a period which is **less than 180 days;**

- then, **depreciation** on such asset shall be calculated & allowed @ **50% of the allowable rate** of depreciation prescribed for such block of asset.
- However, **in every other case, full depreciation shall be calculated & allowed.**

Note:

While charging the depreciation @ 50% of the normal rate of depreciation for asset acquired & put to use for less than 180 days, it is quite possible that the **WDV** of the whole block of asset at the end of the year is **less than the actual cost of the asset(s) acquired & put to use for less than 180 days during the previous year.**

It is possible because the assets in that block are sold, discarded, demolished, destroyed, exchanged or compulsorily acquired under any law during the previous year.

In such case, **depreciation @ 50% of normal rate shall be charged on the entire WDV of that block remaining at the end of the previous year, provided the said asset(s) exists in that block.**

(5) If in any previous year;

- the **money received/receivable** in respect of **assets (whether all or few)**, falling within the block;
- which are sold, discarded, demolished, destroyed, exchanged or compulsorily acquired under any law during the previous year;
- **exceeds the total of WDV and additions;**
- there shall be **no depreciation** allowance for that previous year in respect of such block.

Note:

This is **because the WDV** for the purpose of charging depreciation **becomes negative** in such case.

The **excess of money received/receivable over the total of WDV and additions** shall be treated as **short-term capital gains (STCG)** as per section 50.

(6) Further, if in any previous year;

- the **money received/receivable** in respect of **all the assets**, falling within the block;
- which are sold, discarded, demolished, destroyed, exchanged or compulsorily acquired under any law during the previous year;
- **does not exceed the total of WDV and additions;**
- there shall be no depreciation allowance for that previous year in respect of such block.

Note:

This is because the block ceases to exist in such case.

The excess of the total of WDV and additions over the money received/receivable shall be treated as **short-term capital loss (STCL)** as per section 50.

From the above discussion it is clear that, an assessee can compute & claim the depreciation allowance under the block of assets system **only if:**

- the **value** of the block is **positive; and**
- as on the last day of the previous year the **block of assets has assets physically present therein.**

Steps for computation of normal depreciation & closing WDV of block of assets:

- (1) Ascertain the opening WDV of each block of assets.
- (2) Add the actual cost of the assets acquired in respective blocks during the previous year.
- (3) Deduct the money received/receivable along with scrap value (if any), in respect of the assets of respective blocks, which are sold, discarded, demolished, destroyed or exchanged or compulsorily acquired under any law during the previous year.
- (4) The depreciable value of such block for the purpose of depreciation shall be $(1) + (2) - (3)$.
- (5) Apply the prescribed rates of depreciation on the depreciable value calculated in step (4) above and calculate the amount of normal depreciation.

Note:

Additional depreciation, if any, shall also be calculated at this stage only.

- (6) Reduce the amount of depreciation (normal as well as additional) calculated in step (5) above out of the depreciable value computed in step (4) above in order to arrive at the figure of closing WDV of such block.

Additional depreciation on actual cost of eligible assets in case of eligible assessee - [Section 32(1)(ia)]

Where;

- an **eligible assessee;**
- acquires & installs **new plant & machinery;**
- at any time on or after the 01-04-2005;
- then, additional depreciation @ 20% of the actual cost of such new plant & machinery shall be allowed as deduction;
- **in the year in which such new plant & machinery has been acquired & installed.**

Note:

- (1) This depreciation shall be allowed in addition to the normal depreciation to all the assessees.
- (2) **Eligible Assessee:** Assessee engaged in the business of:
 - (a) **manufacture or production of any article or thing;** or
 - (b) **generation, transmission or distribution of power.**
- (3) Additional depreciation **shall not be allowed** in respect of the following plant & machinery:
 - (a) ships & aircrafts; or
 - (b) any plant & machinery which, before its installation by the assessee, was used either within or outside India by any other person (i.e. second-hand plant & machinery); or
 - (c) any plant & machinery installed in any office premises or any residential accommodation, including accommodation in the nature of a guest-house; or
 - (d) any office appliances including computers or computer software; or
 - (e) vehicles; or
 - (f) any plant & machinery, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head 'PGBP' of any one previous year.
- (4) If plant & machinery eligible for additional depreciation is put to use for the purpose of business for a period of **less than 180 days** in the relevant previous year, **then, 50% of the additional depreciation shall be allowed in the year in which such plant & machinery is put to use and the balance 50% shall be allowed in the immediately succeeding year.**
- (5) The CBDT, vide **Circular No. 15/2016, dated 19-05-2016** has clarified that the **business of printing or printing & publishing amounts to manufacture or production of an article or thing** and therefore assessee engaged in such businesses are also eligible for claiming additional depreciation u/s 32(1)(ia).
- (6) Additional depreciation allowed **shall also be reduced along with the normal depreciation while computing the WDV** of the block for the next year.

General Notes for Depreciation Allowance u/s 32

(1) **Actual cost - [Section 43(1)]:**

Actual cost means the **actual cost of the asset to the assessee as reduced by that portion of the cost, which has been met directly or indirectly by any other person or authority.**

Note:

(a) As per the **proviso to section 43(1)**,

- where an assessee incurs any expenditure for acquisition of any asset;
- in respect of which a payment or aggregate of payments made to a person in a day;
- **otherwise than by an account payee cheque drawn on a bank or account payee bank draft or use of electronic clearing system through a bank account;**
- **exceeds Rs. 10,000;**
- **such expenditure shall not form part of actual cost of such asset.**

(2) **Actual cost in certain special situations - [Explanations to section 43(1)]:**

Expln.	Situation	Actual Cost shall be
1	Asset used for business after it ceases to be used for Scientific Research	NIL [since the cost of the asset is allowed as deduction u/s 35(1)(iv)]
2	Asset acquired by way of Gift or Will or Inheritance	WDV of such asset to the previous owner
5	Building previously used by the assessee for private purpose, brought into use for business or profession of the assessee	Actual Cost of the Building to the assessee Less: Depreciation that would have been allowable had the building been used for business or profession since the date of its acquisition i.e. Notional Depreciation
8, 9 & 10	Where the Assessee himself acquires the Asset	Purchase Price of the Asset Add: (a) Interest on Loan till the date asset is actually put to use (b) Freight & Insurance Charges (c) Loading & Unloading Charges (d) Installation & Erection Charges Less: (a) Any Amount met by any Authority or Any Other Person by way of Subsidy or Grant (b) CENVAT Credit

<p>13</p>	<p>Asset on which deduction has been allowed or is allowable u/s 35AD</p>	<p>Actual Cost of such asset shall be taken as NIL.</p> <p>Applicable in a case where:</p> <p>(a) the assessee himself has claimed the deduction u/s 35AD; or</p> <p>(b) the previous owner has claimed the deduction u/s 35AD and the asset is acquired by the assessee by way of any modes specified u/s 49(1)</p>
<p>Proviso to Explan. 13</p>	<p>Where an asset, in respect of which deduction is claimed & allowed u/s 35AD is deemed to be the income of the assessee in accordance with the provisions of section 35AD(7B) (on account of being used for a purpose other than specified business u/s 35AD)</p>	<p>Actual Cost of the asset to the assessee</p> <p>Less: Depreciation allowable had the asset been used for the purpose of business, calculated at the rate in force, since the date of its acquisition i.e. Notional Depreciation</p>

- (3) As per the **explanation 5 to section 32(1)**, it is mandatory for an assessee to claim depreciation. In other words, depreciation shall be allowed to the assessee whether or not the assessee has claimed deduction in respect of depreciation in computing his total income.
- (4) As per the **sixth proviso to section 32**, where in any previous year, if there is:
- succession of partnership firm by a company as per section 47(xiii); or
 - conversion of private company or an unlisted public company to a limited liability partnership as per section 47(xiiiib); or
 - succession of a proprietary concern by a company as per section 47(xiv); or
 - succession of any business otherwise than on death; or
 - amalgamation of companies; or

(f) demerger of any company, then, the depreciation in such cases shall be calculated at prescribed rates, as if the succession or amalgamation or demerger had not taken place, and the depreciation so calculated shall be apportioned between the predecessor & the successor or the amalgamating company & the amalgamated company or demerged company & resulting company as the case may be, in the ratio of the number of days for which the asset were used by them during the year in which such succession or amalgamation or demerger has taken place.

(5) Unabsorbed Depreciation:

As per section 32(2), where full effect cannot be given to depreciation allowance in a previous year because:

- the amount of depreciation is greater than the profits or gains from business or profession (before claiming the depreciation allowance); or
- there being no profits or gains chargeable to tax for that previous year,
- then, the depreciation allowance for which the effect could not be given, can be adjusted during the same previous year against any other income (except salary).
- However, where after such adjustment, still the depreciation could not be adjusted, then the same is allowed to be carried-forward to subsequent assessment years as unabsorbed depreciation. Such carry-forward is available for an indefinite period and there is no requirement of filing the return of income on or before the due dates in order to carry-forward such unabsorbed depreciation.
- Once the unabsorbed depreciation is carried-forward, it forms part of the current year's depreciation, hence, it can be set-off either against 'PGBP' income or any other head of income (except salary) in the subsequent years.
- In other words, the depreciation allowance shall be allowed as under:
 - Current year depreciation is first deductible from the business income.
 - If any balance is left due to income from business being NIL or insufficient, it can be set-off from any income (except salary) in the same previous year.
 - In case there is still balance left over, it is to be treated as unabsorbed depreciation and is to be taken to the succeeding years and such brought forward unabsorbed depreciation can be set-off in the subsequent years against any income (except salary).

- However, if there is any brought forward business loss also, then, the set-off shall be done in the following manner:
 - Set-off of current year depreciation.
 - Set-off of brought forward business loss.
 - Set-off of brought forward unabsorbed depreciation.

A numeric illustration of block method of accounting for depreciation u/s 32, spread into several years in **relation to its varied features**.

Year 1	PLANT & MACHINERY - 15%	-	(₹)
	Opening W.D.V.	5,000	58,00,000
	(+) Purchase during the year and used for < 180 days during such a year of purchase	8,000	12,00,000
	TOTAL	13,000	70,00,000
	(-) Sold during the year	(8,000)	(12,00,000)
	Qualifying amount for depreciation	5,000	58,00,000
	(-) depreciation u/s 32		
	$12,00,000 \times \frac{15}{100} \times 50\% = 90,000$		
	$100 \times 50\% = 90,000$		
	$46,00,000 \times \frac{15}{100} \times 100\% = 6,90,000$		
	(BAL.)		(7,80,000)
	Closing W.D.V.	5,000	50,20,000

Remarks :

In this situation the 8,000 machines which were purchased during the year and used for less than 180 days during such a year of purchase, are sold, yet depreciation is reduced as above and the reason is that the identity, personality and individuality of the asset gets lost in the common hotch pot of the block and value based calculations are made. Thus, whatever is sold, is not recognised under the system, and the fact remains that such purchase value of ₹ 12,00,000 is retained in the block for less than 180 days and thus is entitled to depreciation @ 50% of the block's rate of depreciation.

In order to attract the provisions of restriction of depreciation to 50% of the block's rate, two conditions are to be satisfied together i.e.

- asset should be purchased during the year.

AND

- used for less than 180 days during such year of purchase. If an asset is purchased in say year 1 but not used in year 1 at all, no depreciation would be allowed in year 1. If such an asset is installed and used in year 2 for < 180 days, yet depreciation would be allowed @ 100% of the block's rate and not 50%, since the asset is not purchased in year 2.
- In case such 8,000 machines would have been sold for say ₹ 60,00,000, then qualifying amount for depreciation would be ₹10,00,000. Such ₹ 10,00,000 would be subject to restriction of 50% of the block's rate since it is less than purchase value of ₹ 2,00,000. In other words the restriction is applicable on purchase value of less than 180 days or qualifying amount for depreciation, **whichever is less.**

Year 1	PLANT & MACHINERY - 15%	-	(₹)
	Opening WDV	5,000	50,20,000
(+)	Purchase during the year	----	----
	The year TOTAL	5,000	50,20,000
(-)	Sold during the year	(100)	(20,00,000)
	Q. A. for depreciation	4,900	30,20,000
(-)	Depreciation u/s 32		(4,53,000)
	Closing WDV	4,900	25,67,000

Remarks :

In this situation apparently there is a huge capital gain on the sale of 100 machines, which under the block method is not calculated separately if there is positive assets and positive value as qualifying amount for depreciation, such gain gets absorbed in current depreciation and closing WDV and the effect is that depreciation is reduced by Gain* block's rates of depreciation and the balance of the gain reduces the closing WDV.

Year 3	PLANT & MACHINERY - 15%	-	(₹)
	Opening WDV	4,900	25,67,000
(+)	Purchase during the year	---	----
	TOTAL	4,900	25,67,000
(-)	Sold during the year	(4,000)	(500)
	Q. A. for depreciation	900	25,66,500
(-)	Depreciation		(3,84,975)
	Closing WDV	900	21,81,525

Remarks :

In this situation apparently, there is a huge capital loss on the sale of 4,000 machines, which under the block method of accounting for depreciation is not calculated separately if there are positive assets and positive value as qualifying amount for depreciation, but such loss gets adjusted in current depreciation and closing WDV and the effect is that current depreciation is increased by Loss* block's rate of depreciation and the balance of loss increases the closing WDV.

Year 4	PLANT & MACHINERY - 15%	-	(₹)
	Opening WDV	900	21,81,525
(+)	Purchased during the year	----	----
	Total	900	21,81,525
(-)	Sold during the year	(300)	(50,00,000)
			21,81,525
			(28,18,475)
	Q. A. for depreciation	600	NIL
(-)	Depreciation		NIL
	Closing WDV	600	NIL
	Capital Gains		
	Sale consideration		50,00,000
(-)	Cost of acquisition of depreciable asset u/s 50(1)		
	(All assets in the block are not sold)		
	Opening WDV	21,81,525	
(+)	Purchased during the year		
		NIL	(21,81,525)
	S.T.C.G. taxable u/s 45		28,18,475

Remarks :

In this situation i.e. when all assets are not sold and the sale consideration of whatever is sold, exceeds the opening WDV.

(+) purchased during the year

(+) transfer expenses, such excess is always short - term capital gain as above.

• **Always short - term**

because the identity, individuality gets lost in the common hotch pot of the block, thus what is sold is not recognised under the system and hence even if the asset is held for more than 3 years prior to its sale, it would be short - term. Further also because value based calculations are made and such value keeps on changing every year.

- Always capital gains

In this situation when all assets are not sold, there can never be a possibility of short - term capital loss (if there is actually a loss, it will be covered by year 3 situation) i.e. there will always be short - term capital gains only, or the block continues.

Year 5	PLANT & MACHINERY - 15%	-	(₹)
	Opening WDV	600	NIL
	(+) Purchased during the year	----	----
	Total	600	NIL
	(-) Sold during the year	(300)	(3,00,000)
			NIL
	Q. A. for depreciation	300	(3,00,000)
			NIL
	(-) Depreciation u/s 32		NIL
	Closing WDV	300	NIL
	Capital Gains		
	Sale consideration		3,00,000
	(-) Cost of acquisition of depreciable asset u/s 50(1) (All assets in the block are not sold)		
	Opening WDV	NIL	
	(+) Purchased during the year	NIL	(NIL)
	S.T.C.G. taxable u/s 45		3,00,000

Remarks :

Same as year 4 situation.

Year 6	PLANT & MACHINERY - 15%	-	(₹)
	Opening WDV	300	NIL
	(+) Purchased during the year & used for > 180 days	200	2,00,000
	TOTAL	500	2,00,000
	(-) Sold during the year	(500)	(1,20,000)
			2,00,000
	Q. A. for depreciation	NIL	(80,000)
			NIL

Block ceases to exist Capital Gains			
	Sales consideration		1,20,000
(-)	Cost of acquisition of depreciable asset u/s 50(2) (All assets in the block are sold)		
	Opening WDV	NIL	
(+)	Purchased during the year	2,00,000	(2,00,000)
	Short - term Capital Loss		(80,000)

Remarks :

In this situation all assets in the block are sold and here there are two possibilities, i.e. short - term capital loss as above or short - term capital gains / NIL. If the 500 machines would have been sold for say ₹ 3,00,000, then ₹ 1,00,000 would be short - term capital gains taxable u/s 45.

***-Expenditures incurred for Scientific Research or Contributions made for Scientific Research or Research in Social Sciences/Statistical Research - [Section 35]**

An assessee engaged in any business or profession can claim deduction u/s 35 in respect of any expenditure incurred or contribution made by him for the purpose of scientific research/research in social sciences/statistical research.

Where the expenditure is incurred by the assessee for in-house research:

Deduction u/s 35 is allowed to the assessee where the assessee incurs expenditure on research (whether capital or revenue in nature) which is related to the business of the assessee.

<p>Section 35(1)(i) Revenue Expenditure on Scientific Research</p>	<p>All the capital expenditures (except the expenditure on acquisition of land) incurred by the assessee on scientific research related to his business shall be deductible in full (i.e. 100%) in the previous year in which it is incurred.</p>
	<p>Note:</p> <p>(1) Any capital expenditure in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by way of A/c payee cheque or A/c payee bank draft or ECS, exceeds ₹ 10,000 shall not qualify for deduction u/s 35.</p> <p>(2) No depreciation shall be allowed u/s 32 i.r.o. any asset (capital expenditure) for which deduction has been claimed u/s 35.</p> <p>(3) If land & building have been purchased through a composite agreement, then the cost of the land and the building shall be bifurcated on the basis of their FMVs.</p>

No deduction is allowed for cost of acquiring land, but deduction towards cost of acquiring a building is allowed.

(4) **Expenditure incurred prior to the commencement of business:**

Where any capital expenditure has been incurred prior to the commencement of the business, the aggregate of the expenditure so incurred **within 3 years immediately preceding the commencement of the business shall be deemed to have been incurred in the previous year in which the business is commenced.** Consequently, such capital expenditure shall be allowed as deduction during the previous year in which the business is commenced.

However, such pre-commencement expenditures **shall be allowed to the extent certified by the prescribed authority.**

(5) **Unabsorbed capital expenditure on scientific research:**

For claiming deduction of capital expenditure on scientific research, it may be noted that, **like depreciation, the deduction of such capital expenditure shall be allowed to the extent of profits from that business. There cannot be business loss due to such deduction.**

If the capital expenditure on scientific research cannot be claimed as deduction due to insufficiency of business profits (owing to there being no profits or gains or owing to profits or gains being less than such expenditure), then, the balance is known as unabsorbed capital expenditure on scientific research.

The **treatment of such unabsorbed capital expenditure on scientific research shall be same as that of unabsorbed depreciation.**

(6) **Tax treatment on sale of assets acquired for scientific research:**

Normally, gain arising on transfer of a capital asset is taxable under the head capital gains. But, in the case of a scientific research asset which is **sold without having been used for other purposes**, provisions of section 41(3) are made applicable and **least of the following** amounts shall be charged to tax as 'PGBP' income for the previous year in which such asset was transferred:

(a) **Net sale price of the asset; or**

(b) **Cost of the asset, earlier allowed as deductions u/s 35**

However, **any excess over the original cost of such asset shall be subjected to the provisions of capital gains.** This shall apply even if the business is not in existence in that previous year.

	<p>Further, if any scientific research asset is used in the business of the assessee after it ceases to be used for scientific research, the actual cost of such asset to be included in the relevant block shall be taken as NIL because full expenditure incurred as its cost has been allowed as a deduction u/s 35. However, if such asset is transferred later on, the net sale price shall be deductible from the block in which such asset was included.</p>
<p>Section 35(2AB) Revenue/ Capital Expenditure incurred by a Company engaged in the business of Bio-technology or Manufacturing of any article or thing</p>	<p>Where a company engaged in the business of:</p> <p>(a) Bio-technology; or</p> <p>(b) Manufacture of any article or thing (except article or thing specified in the eleventh schedule)</p> <p>incurs any expenditure (whether revenue or capital in nature but except cost of any land or building) on in-house scientific research & development facility as approved by the prescribed authority, a deduction of the expenditure incurred shall be allowed.</p> <p>Note:</p> <ol style="list-style-type: none"> (1) Any capital expenditure in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by way of A/c payee cheque or A/c payee bank draft or ECS, exceeds ₹ 10,000 shall not qualify for deduction u/s 35. (2) No deduction shall be allowed in respect of above expenditures under any other provision of the Income Tax Act, 1961. (3) Such company shall be entitled to this deduction only if it enters into an agreement with the prescribed authority for co-operation in such research & development facility. (4) Such company shall also fulfill the prescribed conditions with regard to maintenance & audit of accounts and shall also furnish prescribed reports in prescribed manner.

Where the assessee makes contribution to outsiders for research:

Deduction u/s 35 shall be allowed, whether or not the research for which the amount contributed or paid (donated) is related to the business or profession of the assessee.

<p>Section 35(1)(ii)</p> <p>Contribution made for undertaking Scientific Research</p>	<p>Any contribution made by the assessee to:</p> <p>(a) any research association which has as its object the undertaking of scientific research; or</p> <p>(b) any university, college or other institution to be used for scientific research</p> <p>shall be allowed to the extent of amount contributed or paid.</p> <p>Note:</p> <p>(1) The contribution made by the assessee would be allowable irrespective of the fact whether the field of scientific research is related to the assessee's business or not & the payment is of a revenue nature or of a capital nature.</p> <p>(2) The amount so contributed or donated is to be used by such association, university, college or institution for the purpose of scientific research provided that such association, university, college or institution is approved for this purpose by the Central Government.</p> <p>(3) The deduction u/s 35(1)(ii), to which the assessee is entitled, shall not be denied merely on the ground that, subsequent to the payment of such sum by the assessee, the approval granted to the association, university, college or other institution has been withdrawn.</p>
<p>Section 35(1)(iii)</p> <p>Contribution made for undertaking Research in Social Sciences or Statistical Research</p>	<p>Any contribution made by the assessee to:</p> <p>(a) any research association which has as its object the undertaking of research in social sciences or statistical research; or</p> <p>(b) any university, college or other institution to be used for research in any social science or statistical research.</p> <p>shall be fully allowed in the hands of the assessee contributing (donating) such amount.</p> <p>Note:</p> <p>(1) The contribution made by the assessee would be allowable irrespective of the fact whether the field of research is related to the assessee's business or not and the payment is of a revenue nature or of a capital nature.</p>

	<p>(2) The amount so contributed or paid is to be used by such association, university, college or institution for the purpose of research in social sciences or statistical research provided that such association, university, college or institution is approved for this purpose by the Central Government.</p> <p>(3) The deduction u/s 35(1)(iii), to which the assessee is entitled, shall not be denied merely on the ground that, subsequent to the payment of such sum by the assessee, the approval granted to the association, university, college or other institution has been withdrawn.</p>
<p>Section 35(1)(iia) Payment or Contribution made to any Company for Scientific Research</p>	<p>Any sum paid or contributed by an assessee to a company to be used by such company for scientific research shall be allowed fully, if:</p> <p>(a) the company is registered in India; and</p> <p>(b) which has the main object of scientific research & development.</p> <p>Note:</p> <p>(1) Such company shall be approved by the prescribed authority and shall fulfill such other conditions as may be prescribed.</p> <p>(2) A company approved u/s 35(1)(iia) shall not be entitled to claim deduction u/s 35(2AB).</p> <p>However, it can continue to claim deduction u/s 35(1)(i) in respect of the revenue expenditure incurred on scientific research.</p>
<p>Section 35(2AA) Contribution made to National Laboratory, University, IIT or Any Other Specified Person</p>	<p>Any sum contributed by an assessee to:</p> <p>(a) National Laboratory; or</p> <p>(b) University; or</p> <p>(c) Indian Institute of Technology (IIT); or</p> <p>(d) Any Specified Person</p> <p>with a specific direction that the said sum shall be used for carrying out scientific research undertaken under a programme approved in this behalf by the prescribed authority, shall be eligible for a deduction of the amount so contributed.</p> <p>Note:</p> <p>(1) The amount which qualifies for weighted deduction u/s 35(2AA) shall not be allowed to be deducted under any other provision of the Income Tax Act, 1961.</p>

(2) It has been further clarified that the deduction to which an assessee is entitled u/s 35(2AA) shall not be denied to the assessee merely on the ground that after payment of such sum by him, the approval granted to any of the aforesaid entities has been withdrawn.

Investment-linked tax incentive for Specified Businesses - [Section 35AD]

With the specific objective of creating rural infrastructure and environment friendly alternate means for transportation of bulk goods, investment-linked tax incentives have been introduced for specified businesses, namely:

Specified Business	Date of Commencement of Operations
(1) <u>Laying & operating:</u>	
- a cross-country natural gas pipeline network for distribution including storage facilities being an integral part of such network	1st April, 2007
- a cross-country crude or petroleum oil pipeline network for distribution including storage facilities being an integral part of such network	1st April, 2009
- a slurry pipeline for the transportation of iron ore	1st April, 2014
(2) <u>Setting up & operating:</u>	
- a cold chain facility for specified products	1st April, 2009
- a warehouse facility for storage of agricultural produce	1st April, 2009
- a warehousing facility for storage of sugar	1st April, 2012
- an inland container depot (ICD) or a container freight station (CFS) notified or approved under the Customs Act, 1962	1st April, 2012
- a semi-conductor wafer fabrication manufacturing unit notified by the CBDT	1st April, 2014
(3) Setting up a new plant or newly installed capacity in existing plant for production of fertilizer	1st April, 2011
(4) Building & operating, anywhere in India:	
- a new hotel of 2 star or above category as classified by the Central Government	1st April, 2010
- a new hospital with at least 100 beds for patients	1st April, 2010

However, second-hand plant & machinery upto 20% of the total value of plant & machinery used in the new business is permissible.

Further, imported plant & machinery previously used abroad shall not be regarded as second-hand provided no depreciation has been allowed or is allowable under the Income Tax Act, 1961 for any period prior to its import.

(3) No deduction under any other section:

The assessee eligible for deduction u/s 35AD shall not be eligible to claim deduction u/s 80-IA to 80-RRB or section 10AA for the same or any other year and vice versa. However, other deductions under chapter VI-A may be allowed to the assessee. Further, the assessee cannot claim deduction in respect of capital expenditure incurred for specified business under any other provision of the Income Tax Act, 1961 in the current year or under this section for any other year.

(4) Audit of Accounts:

The deduction u/s 35AD shall be allowed to the assessee only if the accounts of the assessee for the relevant previous year have been audited by a chartered accountant and the assessee furnishes the audit report in the prescribed form, duly signed and verified by such accountant along with the return of income.

(5) Asset to be used for specified business for 8 years:

Section 35AD(7A) provides that any asset in respect of which a deduction is claimed and allowed u/s 35AD shall be used only for the specified business for a period of 8 years beginning with the previous year in which such asset is acquired or constructed.

(6) Asset used for any other business other than specified business:

If asset is used for any purpose other than the specified business, the total amount of deduction if so claimed and allowed in any previous year in respect of such asset, as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction had been allowed u/s 35AD, shall be deemed to be income of the assessee chargeable under the head 'PGBP' of the previous year in which the asset is so used.

However, the above provision shall not be applicable to a company which has become a sick industrial company, during the intervening period of eight years.

(7) Asset demolished, destroyed, discarded or transferred for which a deduction is claimed:

If any asset on which a deduction u/s 35AD has been claimed and allowed, is demolished, destroyed, discarded or transferred, the sum received or receivable for the same is chargeable to tax under this head as per the provisions of section 28(vii).

Note:

- (a) Where the asset on which deduction u/s 35AD is allowed is damaged or destroyed, then the insurance compensation received in respect of such asset is **taxable as 'PGBP' income and provisions of section 45(1A) shall not apply even if the insurance claim exceeds the cost of assets.**
- (b) If an asset on which a deduction u/s 35AD is sold under a slump sale, then **for computing the Net Worth u/s 50B its cost shall be taken as NIL.**
- (c) Further, if an asset on which a deduction has been claimed u/s 35AD is **transferred under the circumstances referred to in section 47 (i.e. exempt transfer) then the actual cost to the transferee shall be taken as NIL.**

(8) Carry-forward & Set-off of Losses of Specified Business:

- (i) Losses of any specified business shall be allowed to be set-off only against profits of any specified business irrespective of the fact whether the latter is eligible for deduction u/s 35AD.

For example:

An assessee can, set-off the losses of a hospital or hotel which begins to operate on or after 1st April, 2010 and which is eligible for deduction u/s 35AD, against the profits of the existing business of operating a hospital (with atleast 100 beds for patients) or a hotel (of two star or above category), even if the latter is not eligible for deduction u/s 35AD.

- (ii) The unadjusted loss of any specified business for any previous year can be carried-forward for indefinite period and its set-off in subsequent years is allowed only against the profits of any specified business - [Section 73A].
- (iii) Further, the unadjusted loss of any specified business for any previous year can be carried-forward to subsequent years only if, the assessee has filed the return of income of the that previous year to which the loss relates within the time specified u/s 139(1) i.e. on or before the due date of filing return of income.

(9) Owner of a hotel eligible for deduction u/s 35AD even if he transfers the operation of the hotel to another person:

Where the assessee builds a hotel of 2 star or above category as classified by the Central Government and subsequently, while continuing to own such hotel, transfers the operation of the said hotel to another person, the assessee shall be deemed to be carrying on the specified business of building and operating a hotel. Therefore, he would be eligible to claim deduction u/s 35AD.

Amortization of Preliminary Expenditure - [Section 35D]

Eligible Assessee	An Indian Company or a Non-Corporate Resident Assessee can claim deduction u/s 35D.	
Purpose of incurring Preliminary Expenses	Before Commencement of business	➔ For setting up of any undertaking or ➔ business
	After commencement of business	Extension of the existing undertaking or setting up new unit

Nature of Expenditure Qualifying for Deduction u/s 35D:

Following expenditures shall qualify for the purpose of deduction u/s 35D:

- (a) Expenditure incurred in connection with preparation of feasibility or project report, conducting a market survey (or any other survey necessary for the business of the assessee), or engineering services relating to the business of the assessee.
Provided that the assessee shall furnish a statement containing the particulars of expenditure, as may be prescribed.
- (b) Legal charges for drafting any agreement between the assessee & any other person relating to the setting up or conduct of the business.
- (c) Where the assessee is a company, following expenditure:
 - (i) Fees for registering the company under the Companies Act;
 - (ii) Legal charges for drafting the M.O.A. and A.O.A.
 - (iii) Printing expenses of M.O.A. and A.O.A.
 - (iv) Expenses in connection with the public issue of shares or debentures of a company, underwriting commission, brokerage and charges for drafting, typing, printing and advertisement of the prospectus.

Amount Qualifying for Deduction u/s 35D:

In case of an Indian Company:	In case of a Non-Corporate Resident Assessee:
Lower of the following:	Lower of the following:
(a) Actual Expenditure, or	(a) Actual Expenditure, or
(b) Higher of:	(b) 5% of Cost of Project
(i) 5% of Cost of Project;	
or	
(ii) 5% of Capital Employed	

Note:

Cost of Project:

Cost of Fixed Assets like land, buildings, leaseholds, plant & machinery, furniture & fittings, railway sidings (including expenditure on the development of land & building) as shown in the books of the assessee as on the last day of the previous year in which the business of the assessee commences or extension of the undertaking is completed or new industrial unit commences production (as the case may be).

Capital Employed:

Issued Share Capital (+) Debentures (+) Long-term Borrowings

Maximum Amount of Deduction u/s 35D

The qualifying amount of deduction u/s 35D as computed above, can be claimed as a deduction by the assessee, over a period of **5 years in equal installments (i.e. 1/5th every year for 5 years)**.

Audit of Accounts

Assessee other than a company or a co-operative society, are required to furnish audit report in Form 3AE, along with return of income for the first year in which the deduction is claimed.

No Other Deduction

No deduction shall be available under any other provision of the Income Tax Act, 1961 in respect of expenditure claimed & allowed u/s 35D.

VRS Compensation - [Section 35DDA]

Nature of Expenditure	Expenditure which is incurred by the assessee by way of payment of any sum to the employees in connection with voluntary retirement in accordance with a scheme of voluntary retirement shall qualify for deduction u/s 35DDA.
Maximum Amount of Deduction u/s 35DDA	The assessee shall be allowed a deduction of an amount equal to 1/5th of qualifying expenditure for each of five previous years beginning with the previous year in which such expenditure is incurred.
No Other Deduction	No deduction shall be available under any other provision of the Income Tax Act, 1961 in respect of expenditure claimed & allowed u/s 35DDA.

Deductions available u/s 36

<p>Section 36(1)(i): Insurance Premium for Stock or Stores</p>	<p>Insurance premium paid in respect of any policy which is taken out against the risk, damage or destruction of stock or stores of the business/profession is deductible u/s 36(1)(i).</p> <p>Note: (1) This deduction is allowed in the year of payment. (2) Premium in respect of any insurance undertaken for any other purpose is not allowable under the clause.</p>
<p>Section 36(1)(ib): Insurance Premium paid by the employer for the Health/Group Insurance of the employees</p>	<p>Insurance premium paid by the assessee as an employer towards the health/group insurance policy of the employees.</p> <p>Note: Such premium shall be paid by way of any mode other than cash.</p>
<p>Section 36(1)(ii): Bonus or Commission paid to the Employees</p>	<p>Any bonus or commission paid by the employer assessee to the employee shall be deductible in full as per the provisions of section 36(1)(ii) subject to section 43B; provided such sum shall not be payable as profits or dividends if it had not been paid as bonus or commission. The payment in order to be allowed as deduction u/s 36(1)(ii) should be in relation to employment and not in relation to shareholding. In other words, if the amount payable as dividend to the shareholders is passed on to the employee as bonus or commission (when the same person is the shareholder and the employee), then such payment shall not be allowed as deduction u/s 36(1)(ii).</p>
<p>Section 36(1)(iii): Interest on Borrowed Capital</p>	<p>Interest on borrowed capital is allowed as a deduction if:</p> <p>(a) The loan is borrowed by the assessee.</p> <p>(b) Such loan is used for the purpose of business or profession of the assessee.</p> <p>(c) Interest is paid or payable by the assessee on such loan.</p> <p>Note: (1) Capital should have been borrowed for the purposes of business or profession i.e. capital may be borrowed for working capital or for acquiring assets for business or to pay off a trading debt or loss etc.</p>

Further, the capital may be borrowed in the course of the existing business as well as for acquiring assets for extension of existing business.

- (2) Interest on own capital is not deductible. In simple words, interest shall be paid to another person.
- (3) Interest on loan taken from financial institutions or scheduled banks shall be allowed u/s 36(1)(iii) subject to the provisions of section 43B.
- (4) Any brokerage or commission for securing loan shall not be allowed as a deduction u/s 36(1)(iii), however the same would be allowed u/s 37(1).
- (5) The capital borrowed should be utilised to earn taxable income, however, where the money borrowed is utilised to earn exempt income, no deduction is allowed for interest paid on such borrowing.
- (6) Interest on monies borrowed to pay income tax is not allowable as deduction.
- (7) Interest for late payment or non-payment of Income Tax/ Advance Tax/TDS/TCS or for late filing of ROI shall not be allowed as deduction.
- (8) If the provisions of TDS on payment of interest are not complied with, then interest expense will be disallowed to the payer as per section 40(a).
- (9) As per proviso to section 36(1)(iii), deduction in respect of any amount of interest paid, in respect of capital borrowed for acquisition of new asset for any period beginning from the date on which the capital was borrowed for acquisition of the asset till the date on which such asset was first put to use shall not be allowed.

Further, explanation 8 to section 43(1) also clarifies that interest relatable to a period after the asset is first put to use cannot be capitalised. Hence, interest in respect of capital borrowed for any period from the date of borrowing to the date on which the asset was first put to use should be capitalised.

<p>Section 36(1) (iiia): Discount on Zero Coupon Bonds (ZCBs)</p>	<p>Zero Coupon Bond (ZCB) - [Section 2(48)]: ZCBs are notified bonds issued by:</p> <ul style="list-style-type: none"> - any infrastructure capital company; or - infrastructure capital fund; or - public sector company; or - scheduled bank <p>in respect of which no payment or benefit is received or receivable by the holder of such bond before maturity or redemption & notified by the Central Government in this regard.</p> <p>Discount: The difference between the amount payable on redemption or maturity of such bond and the amount received on the issue of such bond is known as discount. This discount shall be allowed on a pro-rata basis u/s 36(1)(iiia) over the life of such bond i.e. the period commencing from the date of issue of bonds and ending on the date of maturity or redemption of such bonds.</p>
	<p>Pro-rata discount available shall be computed as follows: $\frac{\text{(Total Discount (x) No. of months in the previous year)}}{\text{Period of Life of the Bond}}$</p>
<p>Section 36(1)(iv): Employer's Contribution to RPF or ASAF A/c of the Employees</p>	<p>Employer's Contribution to Recognised Provident Fund (RPF) A/c or Approved Superannuation Fund (ASAF) A/c shall be allowed as a deduction u/s 36(1)(iv).</p> <p>Note: Deduction u/s 36(1)(iv) shall be allowed subject to section 43B.</p>
<p>Section 36(1) (iva): Employer's Contribution to NPS A/c of the Employees</p>	<p>Employer's Contribution to the account of the employee under a notified pension scheme as referred to in section 80CCD shall be allowed as a deduction u/s 36(1)(iva).</p> <p>Note: Such contribution shall be allowed only to the extent of 10% of salary of the employee. **Salary = Basic (+) D.A. (in terms)</p>

<p>Section 36(1)(v): Employer's Contribution to Approved Gratuity Fund of the Employees</p>	<p>Any sum contributed by the employer to an Approved Gratuity Fund created by him for the exclusive benefit of his employees shall be allowed as a deduction u/s 36(1)(v).</p> <div style="border: 1px solid black; padding: 5px;"> <p>Note: Deduction u/s 36(1)(v) shall be allowed subject to section 43B.</p> </div>
<p>Note [Relevant for Section 36(1)(iv) & 36(1)(v)]: Circular No. 22/2015 dated 17-12-2015: As per the provisions of section 43B, certain deductions are admissible only on payment basis. The CBDT has observed that some field officers disallow employer's contributions to any provident fund or superannuation fund or approved gratuity fund, by invoking the provisions of section 43B, if it has been paid after the due dates as specified under relevant Acts. The CBDT has examined the matter in light of the judicial decisions on this issue. Accordingly, the settled position is that if the assessee deposits or pays any sum by way of tax, duty, cess or fee, by whatever name called, under any law for the time being in force or any sum payable by the assessee as an employer by way of contribution to any provident fund or superannuation fund or gratuity fund on or before the due date for furnishing the return of income u/s 139(1), no disallowance can be made u/s 43B.</p>	
<p>Section 36(1)(va): Employee's contribution towards Staff Welfare Schemes</p>	<p>Any sum deducted by any assessee being an employer from the salary of employees as contribution towards:</p> <ul style="list-style-type: none"> - any provident fund; or - superannuation fund; or - ESI; or - any other fund <p>for the welfare of the employees is considered as income u/s 2(24)(x) and accordingly taxable in the hands of employer. However, if the employer credits or deposits the amount so deducted, to the accounts of the employees in the relevant fund, on or before the due dates of the respective fund, the same shall be allowed as a deduction u/s 36(1)(va) and not the due date of filing return u/s 139(1).</p>

Note:

1. Due date of respective fund means the date by which the assessee is required as an employer to credit such contribution to the employee's account in the relevant fund under the provisions of any law or term of contract of service or otherwise.
2. The provisions of Section 43B are never applicable for such employee's contribution deduction to employer u/s 36(i)(va).

**Section 36(1)(vii):
Bad Debts
(excluding
Provision or
Reserve for Bad
Debts**

Deduction for bad debts can be claimed u/s 36(1)(vii) subject to following conditions:

- (a) the debt has been taken into account in computing the income of the assessee of that previous year or of an earlier previous year; or
- (b) represents money lent by the assessee in the ordinary course of business of banking or money lending which is carried on by the assessee; and
- (c) it has been written-off as irrecoverable in the books of accounts of the assessee for that previous year.

Note:

- (1) The debt or loan which is claimed as bad debt u/s 36(1)(vii) must be incidental to the business or profession carried on by the assessee.
- (2) The term bad debt presupposes the existence of a debt and relationship of a debtor and creditor. Unless, therefore, there is an admitted debt it cannot be allowed as bad debt when it becomes irrecoverable.
- (3) No deduction on account of bad debt is admissible u/s 36(1)(vii) unless the amount of debt is taken into account in computing the total income of the assessee of that previous year or of an earlier year. This condition is however, not relevant, if bad debt represents money lent in the ordinary course of money-lending or banking business.
- (4) If there is a bad debt on account of sale made, it will be allowed as deduction, since sale is treated as income. Therefore, in case of a money lending or banking business if the interest on loans & advances is not realizable, it will be allowed as deduction because it has been treated as income either of current year or of any earlier year.

	<p>However, in case of money lending or banking business, the amount of money lent i.e. loans & advances granted shall also qualify for deduction u/s 36(1)(vii) if the same becomes irrecoverable and is written-off in the books of accounts of the assessee, even though the same is not treated as assessee's income.</p> <p>(5) No deduction on account of bad debt is admissible u/s 36(1)(vii) unless it is written-off as irrecoverable in the books of accounts of the assessee in the previous year in which the claim for deduction is made. Further, as per the explanation to section 36(1)(vii), any reserve or provision for bad & doubtful debts is not allowable as a deduction.</p> <p>(6) If bad debts written-off are subsequently recovered then, such recovery shall be deemed to be the income of the previous year in which it is recovered, irrespective of the existence of business or profession in that previous year.</p> <p>(7) In case of amalgamation or demerger or succession or conversion, the amalgamated company or resulting company or successor or converted entity is entitled to claim deduction of bad debts created by the amalgamating company or demerged company or predecessor company or original entity -T. Veerabhadrarao. K. Koteshwararao. (SC)].</p> <p>(8) If advance is given for purchase of raw material & it is forfeited by supplier, it would be allowed as a loss u/s 28.</p>
<p>Section 36(1) (ix): Expenditure by a company for promotion of family planning amongst employees</p>	<p>Revenue Expenditure: Any expenditure of revenue nature bona fide incurred by a company for the purpose of promoting family planning amongst its employees shall be allowed fully as a deduction in computing the company's business income.</p> <p>Capital Expenditure: If the company has incurred expenditure of capital nature, then 1/5th of such expenditure shall be deducted in the previous year in which it was incurred and in each of the four immediately succeeding previous years.</p>

	<p>Note:</p> <p>(1) Any capital expenditure in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by way of A/c payee cheque or A/c payee bank draft or ECS, exceeds Rs. 10,000 shall not qualify for deduction u/s 36(1)(ix).</p> <p>(2) Where profits of business are not sufficient to absorb the family planning expenditure, the balance shall be treated as unabsorbed expenditure on family planning and its treatment shall be same as that of unabsorbed depreciation.</p>
<p>Section 36(1)(xv): Securities Transaction Tax (STT)</p>	<p>The amount of STT paid by the assessee during the previous year in respect of taxable securities transactions entered into in the course of business shall be allowed as deduction u/s 36(1)(xv) subject to the condition that income from taxable securities transactions is included under the head 'PGBP'.</p>
<p>Section 36(1)(xvi): Commodity Transaction Tax</p>	<p>As per section 36(1)(xvi), an amount equal to the CTT paid by the assessee in respect of the taxable commodities transactions entered into in the course of his business during the previous year shall be allowable as deduction, if the income arising from such taxable commodities transactions is included in the income computed under the head 'PGBP'.</p>

General Deduction for Residuary Expenses - [Section 37(1)]

Conditions for claiming deduction u/s 37(1):

- The expenditure **should not be covered under specific sections i.e. sections 30 to 36.**
- The expenditure **should not be of capital nature.**
- The expenditure **should have been incurred by the assessee during the previous year**
- The expenditure **should not be of personal nature.**
- The expenditure **should have been incurred wholly & exclusively for the purposes of business or profession of the assessee.**

Explanation 1 to section 37(1) - Illegal Expenses:

Any expenditure incurred by the assessee for any purpose which is an offence or which is prohibited by law shall not be deemed to have been incurred for the purpose of business or profession.

Therefore, such expenditure shall not be allowed as a deduction or allowance while computing income under the head 'PGBP'.

For example, payment on account of protection money, extortion, hafta, bribes, fines paid various offences etc. shall not be allowed as a business expenditure in the computation of income of any legal as well as illegal business.

Explanation 2 to section 37(1) - CSR Expenses:

Any expenditure incurred by the assessee on the activities relating to corporate social responsibility (CSR) referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business or profession & hence not to be allowed as deduction u/s 37(1).

Note:

- (1) The rationale behind the disallowance is that CSR expenditure, being an application of income, is not incurred wholly & exclusively for the purposes of carrying on business. However, CSR expenditure, which is of the nature described in sections 30 to 36, shall be allowed as deduction under those sections subject to fulfillment of conditions, if any, specified therein.

Explanation 3 to section 37 (1):

Expenses done for offence in or outside india or expenses for compounding the offence or amount given to any person which the cannot legally accept as per the law/rules/regulations/guidelines will not be allowed u/s 37(1).

Note:

- (1) The deduction u/s 37(1) is limited only to the amount actually expended and does not extend to a reserve created for a contingent liability. Hence, any reserves created out of the profits and debited to the Profit & Loss A/c are disallowed.
- (2) Section 37(1) is a residuary section under which only business expenditures are allowable as deduction but not the business losses.
However, under the head 'PGBP', profits & gains should be computed after deducting expenses/losses which are incurred/suffered while earning the income in the regular course of the business, profession or vocation unless such expenses/loss is expressly or by necessary implication, disallowed by the Income Tax Act, 1961.
It is to be noted that, the charge is not on the gross receipts but on the profits & gains. In other words, business profits cannot be computed without allowing a business loss. A trading loss of business is deductible in computing the profits earned by the business even though there is no specific provision in the Income Tax Act, 1961 for allowance thereof.

Such trading losses can be claimed as deduction provided the following conditions are satisfied:

- (a) It should be a real loss and not a fictional or notional one.
- (b) It should be a loss on revenue account and not on a capital account.
- (c) It must have been actually arisen and been incurred, not merely anticipated as certain to occur in the future.
- (d) It should be the one that is incidental to the carrying on of the business and must arise or spring directly from or be incidental to the carrying out of operations of the business.
- (e) There should not be any prohibition in the Income Tax Act, 1961, express or implied, against the deductibility thereof.

Deductible Losses:

- loss on account of embezzlement by an employee (allowable in the year in which it is discovered)
- loss of stock-in-trade by fire or other natural calamities or due to negligence of the employees
- loss on account of robbery or theft provided it is in the course business and incidental to the trade
- loss caused on account of fluctuations in foreign exchange rate at the time of remitting the money for purchase of raw materials
- loss caused by non-recovery of advances made in the course of business, provided it is a trading loss
- loss caused due to breach of contract for delivery of goods by either party

- loss by way of forfeiture of security deposits for failure to comply with the conditions of contract in the normal course of business
- loss of finished goods or raw materials in transit

Non-Deductible Losses:

- loss caused due to payment of penalties for infraction or breach of law as violation of law is not normal incident of trade
- loss due to sale of securities held as investments as the same shall be capital loss and not business loss
- loss which are not incidental to the carrying on of the business of the assessee
- loss sustained before the business is commenced
- loss incurred in closing down of the business
- loss incurred due to damage, destruction etc. of the capital assets
- loss caused by forfeiture of advances given for purchase of capital assets

Disallowances - [Section 37(2B), 38, 40, 40A & 43B]

Advertisements in Souvenirs etc. of Political Parties - [Section 37(2B)]

Any expenditure on advertisement in any souvenir, brochure, tract pamphlet or the like published by any political party shall not be allowed as a deduction because the assessee is entitled to claim deduction u/s 80GGB & u/s 80 GGC from his gross total income for such expenditure.

Note:

- (1) Expenditure on advertisement in any other case shall be allowed as deduction if the conditions as mentioned u/s 37(1) are satisfied.
- (2) Further, any contribution or donation made to a political party or electoral trust are also disallowed since such donations cannot be said to be an expenditure incurred for the purpose of business or profession.

However, such donation is allowed as a deduction u/s 80GGB & 80GGC respectively.

Assets not exclusively used for the purpose of Business or Profession of the Assessee - [Section 38]

- Where any building or plant & machinery or furniture is not exclusively used for the purposes of business or profession of the assessee; the deduction in respect of rent, rates, taxes, insurance, repairs and depreciation in relation to the non-business use shall be disallowed.
- In such case, the deduction for such expenses or depreciation shall be restricted to a fair proportionate part thereof which the A.O. may determine, having regard to the use of such building or plant & machinery or furniture for the purposes of business or profession.

Inadmissible Expenditures or Payments - [Section 40]

<p>Section 40(a)(i): Non-compliance of TDS provisions, where payment is made outside India or to a Non-Resident</p>	<p>As per section 40(a)(i);</p> <ul style="list-style-type: none"> - no deduction shall be allowed for any interest, royalty, fees for technical services or any other sum (except salary); - which is chargeable to tax in the hands of the recipient and paid or payable: <ul style="list-style-type: none"> • outside India; or • in India to a non-resident (not being a Indian company) or to a foreign company; - on which tax is deductible at source and such tax: <ul style="list-style-type: none"> • has not been deducted; or • has been deducted but not paid on or before the due date specified u/s 139(1). <p>Note: As per the proviso to section 40(a)(i);</p> <ul style="list-style-type: none"> - where in respect of any such sum, the tax <ul style="list-style-type: none"> • has been deducted in any subsequent year; or • has been deducted in the previous year but paid after the due date of filing of return u/s 139(1); - such sum shall be allowed as a deduction in computing the income of the previous year in which such tax has been paid.
<p>Section 40(a)(ia): Non Compliance of the TDS provisions, where payment is made to Residents</p>	<p>As per section 40(a)(ia);</p> <ul style="list-style-type: none"> - 30% of any sum payable to a resident, on which tax is deductible at source, shall be disallowed if such tax: <ul style="list-style-type: none"> • has not been deducted; or • has been deducted but not paid on or before the due date specified u/s 139(1). <p>Note: As per the proviso to Section 40(a)(ia);</p> <ul style="list-style-type: none"> - if in respect of such sum, the tax: <ul style="list-style-type: none"> • has been deducted in any subsequent year; or • has been deducted during the previous year but paid after the due date specified in section 139(1); - 30% of such sum shall be allowed as deduction in computing the income of the previous year in which such tax has been paid.

	<p>Example:</p> <p>Tax on commission paid to Mr. X (resident), has been deducted during the P.Y. 22-23, the same has to be paid by on or before the due date of filing the return of income i.e. 31/07/23 or 30/09/23 (as the case may be). Otherwise, 30% of commission paid shall be disallowed in computing the income for the P.Y. 22-23 i.e. A.Y. 23-24.</p> <p>If in respect of such commission, tax deducted during the P.Y. 22-23 has been paid after such due date, then, 30% of such commission shall be allowed as deduction in the year of payment of such tax.</p>
<p>Section 40(a)(ii): Income Tax Paid</p>	<ul style="list-style-type: none"> - Any sum paid on account of any rate or tax or cess levied on profits on the bases of or in proportion to the profits & gains of any business or profession. - In other words, any income tax (including surcharge/cess) levied & paid in India shall be disallowed.
<p>Section 40(a) (iib): Levy by the State Government</p>	<ul style="list-style-type: none"> - Where any State Government undertaking pays dividend to the State Government, then such dividend is not deductible as an expense in their hands and is also liable to Dividend Distribution Tax (DDT). - State Government(s) instead of taking dividends, take money from these undertakings in the form of royalty, licence fee, service fee, privilege fee, service charge or any other fee or charge, which were exclusive levies on such undertakings. - This is done so that such payments are allowed as a deduction in the hands of such undertakings & the State Government(s) get the money without any payment of Dividend Distribution Tax (DDT) by such undertakings. - In order to levy tax on such withdrawals by the State Government(s) from such undertakings; it is provided that wherein any exclusive payment in the form of royalty, licence fee, service fee, privilege fee, service charge or any other fee or charge are paid to the State Government by such undertakings, the same shall be disallowed in the hands of such undertakings.
	<p><u>It may be noted that the disallowance u/s 40(a)(iib) is attracted if:</u></p> <p>(a) the levy is by the State Government i.e. disallowance is not attracted if the levy is by the Central Government.</p> <p>(b) such levy is an exclusive levy on such undertakings by the State Government i.e. if the levy is non-exclusive i.e. the same levy is applicable to others also then also the disallowance is not attracted.</p>

<p>Section 40(a)(iii): Salary without TDS</p>	<p>As per section 40(a)(iii);</p> <ul style="list-style-type: none"> - any 'salary' paid or payable: <ul style="list-style-type: none"> • outside India; or • to a non-resident - shall be disallowed, if TDS: <ul style="list-style-type: none"> • has not been deducted; or • has been deducted but not paid within the time prescribed under the Income Tax Act, 1961
<p>Section 40(a)(v): Tax paid on non-monetary perquisites of the employee</p>	<p>In case of an employee, deriving income in the nature of non-monetary perquisites, the amount of tax on such income paid by his employer is exempt from tax in the hands of that employee u/s 10(10CC). Correspondingly, such TAX payment is not allowed as deduction from the income of the employer.</p>
<p>Section 40(b): Interest or Remuneration to partners paid/ payable by the firm</p>	<ul style="list-style-type: none"> - Interest on partners' capital or loans from partners shall be allowed as deduction only when the payment of such interest is authorised by the partnership deed. Such interest shall be allowed to the extent of least of the following: <ul style="list-style-type: none"> (a) Interest paid/payable as per the partnership deed; or (b) Interest calculated @ 12% p.a. - Remuneration to a working partner by whatever name called (like salary, bonus, commission etc.) shall be allowed as deduction if the same is authorised or covered by the partnership deed. Such remuneration shall be allowed to the extent of least of the following: <ul style="list-style-type: none"> (a) Remuneration paid/payable to as per the partnership deed; or (b) Maximum Amount as Specified u/s 40(b).

Note:

(1) **Maximum Amount as Specified u/s 40(b):**

- **on the first Rs. 3,00,000 of Book Profit or in case of Loss:**
₹ 1,50,000 or 90% of the Book Profit (whichever is higher)
- **on the Balance Amount of Book Profit:**
60% of the Book Profit

Book Profit:

Book Profit means the net profit as shown in the Profit & Loss A/c of the partnership firm for the relevant previous year, computed as per the provisions of this head and such profit should be increased by the remuneration paid/payable to the partners of the firm, **if the same has been deducted while computing the above net profits.**

- (2) Working partner means a partner who is actively engaged in conducting the affairs of the business/profession of the firm.
- (3) Salary, bonus, commission or other remuneration in relation to a period prior to the date of partnership deed shall not be allowed as a deduction.
- (4) Any interest or remuneration received by a partner from the firm shall be taxable in the hands of such partner as income under the head 'PGBP' to the extent such interest or remuneration is allowed as a deduction to the firm. However, any share in the profits of a firm received by the partner of such firm shall be fully exempt u/s 10(2A).

Expenses or Payments not deductible in certain circumstances - [Section 40A]

**Section 40A(2):
Excessive or
Unreasonable
Payments made
to Specified
Persons**

- As per the provisions of section 40A(2);
- where, any payment is made in respect of goods, services or facilities supplied or provided by a 'specified person'; and
 - the amount paid to such 'specified person' is considered to be excessive or unreasonable as compared with the market value of such goods, services or facilities;
 - then, the **excess or unreasonable sum shall be disallowed** by the A.O.
 - In this regard, the A.O. shall have due regard to the:
 - (a) market value of the goods, services or facilities for which the payment is made; or
 - (b) legitimate needs of the business or profession carried on by the assessee; or
 - (c) benefit derived by or accruing to the assessee from such payment.

Note:

For the purpose of section 40A(2), specified person means:

(1) In case of an assessee being an Individual:

- (i) any relative i.e. spouse, brother, sister, any lineal ascendant or descendant of such individual; or
- (ii) any person in whose business or profession the assessee himself or his relative has substantial interest.

(2) In case of an assessee being a Company / Firm / HUF / AOP / BOI:

- (i) any director of the company or partner of the firm or member of the HUF or AOP/BOI or any relative of such director or partner or member; or
- (ii) any person who carries on a business or profession, in which the company or firm or HUF or AOP/BOI or director of the company or partner of the firm or member of the HUF or AOP/BOI or any relative of such director or partner or member has substantial interest.

Substantial Interest:

A person shall be deemed to have substantial interest in any business or profession if, such person is at any time during the previous year:

- beneficial owner of at least 20% equity share capital; or
- entitled to at least 20% of the profits of the concern.

Section 40A(3):
Payments
in excess of
₹10,000

As per the provisions of **section 40A(3);**

- where the assessee incurs any expenditure;
- in respect of which a payment or aggregate of payments made to a person in a day;
- otherwise than by:
 - an account payee cheque; or
 - an account payee bank draft; or
 - use of electronic system through a bank account;
- **exceeds ₹ 10,000;**
- then, **such payment shall be fully disallowed.**

Note:

- (1) The provision of section 40A(3) shall apply to all categories of expenditure involving payments for goods or services which are deductible in computing the taxable income.
- (2) Payment or aggregate of payments; **upto ₹ 35,000** in a day can be made to a transport operator, otherwise than by way of an account payee cheque or account payee bank draft or use of electronic clearing system through a bank account.
- (3) As per the provisions of **section 40A(3A);**
 - in case of an assessee following mercantile system of accounting;
 - if an expenditure has been allowed as deduction in any previous year on due basis; and
 - payment has been made in a subsequent year otherwise than by:
 - account payee cheque; or
 - account payee bank draft; or
 - use of electronic clearing system through a bank account;
 - then, the payment so made, shall be deemed to be the income of the subsequent year,
 - if such payment or aggregate of payments made to a person in a day exceeds 10,000.
- (4) **Cases where disallowances would not be attracted:**
 - (a) **Loan transactions:**

It does not apply to loan transactions because advancing of loans or repayments of the principal amount of loan does not constitute an expenditure deductible in computing the taxable income.

However, interest payments of amounts exceeding ₹ 10,000 at a time are required to be made by account payee cheques or drafts or electronic clearing system as interest is a deductible expenditure.

(b) Payment made by commission agents:

This requirement does not apply to payment made by commission agents for goods received by them for sale on commission or consignment basis because such a payment is not an expenditure deductible in computing the taxable income of the commission agent.

For the same reason, this requirement does not apply to advance payment made by the commission agent to the party concerned against supply of goods.

However, where commission agent purchases goods on his own account but not on commission basis, the requirement will apply. The provisions regarding payments by account payee cheque or draft or electronic clearing system apply equally to payments made for goods purchased on credit.

(c) Exceptions to section 40A(3) & 40A(3A) as per Rule 6DD:

No disallowance u/s 40A(3) shall be made & no payment shall be deemed to be the 'PGBP' income u/s 40A(3A) in following cases & circumstances even though a payment or aggregate of payments exceeds ₹ 10,000, otherwise than by an a/c payee cheque or a/c payee bank draft or use of ECS through a bank account - **[Rule 6DD]:**

- Payment is made to:
 - (a) the Reserve Bank of India or any banking company
 - (b) the State Bank of India or any subsidiary bank
 - (c) any co-operative bank or land mortgage bank
 - (d) any primary agricultural credit society or any primary credit society
 - (e) the Life Insurance Corporation of India
- Payment is made to Government and as per the rules such payment is required to be made in legal tender.

- Payment is made by:
 - (a) any letter of credit arrangements through a bank
 - (b) a mail or telegraphic transfer through a bank
 - (c) a book adjustment from any account in a bank to any other account in that or any other bank(d) a bill of exchange made payable only to a bank
 - (d) a bill of exchange made payable only to a bank
 - (e) a credit card
 - (f) a debit card
- Payment is made by way of book adjustment against the amount of any liability incurred for goods supplied or services rendered.
- Payment is made for the purchase of:
 - (a) agricultural or forest produce
 - (b) the produce of animal husbandry (including livestock, meat, hides and skins) or dairy or poultry farming
 - (c) fish or fish products
 - (d) the products of horticulture or apiculture, to the cultivator, grower or producer of such articles, produce or products.
- Payment is made to the producer of goods in cottage industry without the aid of power.
- Payment is made in a village or town, which on the date of such payment is made, is not served by any bank.
- Terminal retirement payment or gratuity payment to an employee or his legal heirs to the extent of ₹ 50,000.
- Payment to employees on temporary posting for a continuous period of 15 days or more if such payment is made after deduction of tax at source and such employee does not maintain any bank account at such place.
- Payment is made by any person to his agent who is required to make payment in cash for goods or services on behalf of such person.
- Payment is made by an authorised dealer or a money changer against purchase of foreign currency or travelers cheques.

**Section 40A(7):
Provision for
Payment of
Gratuity to
Employees**

As per **section 40A(7)**;

- no deduction shall be allowed to any assessee carrying on any business or profession;
- in respect of any provision (whether called as provision or by any other name) made by him towards the payment of gratuity to his employees on their retirement or on the termination of their employment for any reason.

Note:

(1) Reason for such disallowance is that, u/s 36(1)(v), deduction is allowed in computing the income under the head 'PGBP' in respect of any sum paid by a taxpayer in his capacity as an employer in the form of contributions made by him to an approved gratuity fund created for the exclusive benefit of his employees under an irrevocable trust.

Further, section 37(1) provides that any expenditure other than the expenditure of the nature described in sections 30 to 36 laid out or expended, wholly & exclusively for the purpose of the business or profession must be allowed as a deduction in computing the taxable income under the head 'PGBP'.

Combined reading of both the above provisions clearly indicates that the intention of the legislature has always been that the deduction in respect of gratuity shall be allowable to the employer either in the year in which the gratuity is actually paid or in the year in which contributions to an approved gratuity fund are actually made by employer.

This provision, therefore, makes it clear that any amount claimed by the assessee towards provision for gratuity, by whatever name called shall be disallowed in the assessment of employer even if the assessee follows the mercantile system of accounting.

- (2) However, no disallowance shall be made u/s 40A(7) in a case:
- where any provision is made by the employer for the purpose of payment of sum by way of contribution to an approved gratuity fund during the previous year; or
 - for the purpose of making payment of any gratuity that has become payable during the previous year by virtue of the employee's retirement, death, termination of service etc.

	<p>(3) Further, where any provision for gratuity for any reason has been allowed as a deduction to the assessee for any assessment year, any sum paid out of such provision by way of contribution towards an approved gratuity fund or by way to gratuity to employee shall not be allowed as deduction to the assessee in the year in which it is paid.</p> <p>(4) Examples:</p> <p>(i) An employee retires during the current year. The employer does not maintain any gratuity fund. Gratuity is paid to him during the current year. Such gratuity is deductible during the current year.</p> <p>(ii) An employee retires during the current year. Gratuity is payable to him. Part of the gratuity is paid to him during the current year and the balance shall be paid in the next year. A provision is made towards the gratuity in the books of accounts of the current year for making payment in the next year. The entire amount is deductible during the current year (if no deduction was claimed earlier). In this case, deduction is available during the current year even if provision is made for gratuity fund, which is unapproved.</p> <p>(iii) A company has 100 employees. To meet the future liability to pay them gratuity at the time of retirement, gratuity fund is created & the employer is making contribution to this fund every year. Employer’s contribution to this fund is deductible only if the fund is an approved gratuity fund.</p>
<p>Section 40A(9): Contributions by Employers to Non-Statutory Funds</p>	<p>Any sum paid by the assessee as an employer by way of contribution towards RPF or ASAF or approved gratuity fund is deductible to the extent required by law.</p> <p>However, if the following conditions are satisfied, then the contribution or payment shall not be deductible:</p> <p>(a) The contribution or payment is made by an employer.</p> <p>(b) It is paid towards setting up (or formation of) any trust, company, AOP, BOI, society or it is paid by way of contribution to any fund.</p> <p>(c) Such contribution or payment is not required by any law.</p>

Note:

- (1) Section 40A(9) has been introduced to curb the growing practice amongst the employers to claim deductions from taxable business profits for contributions made apparently for the welfare of employees, from which, however, no genuine benefit flows to the employees.
- (2) Section 40A(9), which provides for disallowance of any sum paid by an employer towards contribution to any fund or trust has been amended to exclude from the scope of its disallowance, contribution by an employer to the pension scheme referred to in section 80CCD, to the extent to which deduction is allowable u/s 36(1)(iva).

Deductions for certain expenses only on Payment Basis - [Section 43B]

As per the provisions of **section 43B**, following expenses shall be **allowable only in the year in which they are actually paid, irrespective of the method of accounting regularly followed** by the assessee and irrespective of the year in which the liability for such expenses accrues:

- (1) Any sum payable by an employer by way of contribution (**i.e. employer's contribution**) to provident fund or superannuation fund or approved gratuity fund or any other fund for the welfare of the employees.
- (2) Any sum payable by way of **tax, duty, cess or fee** by whatever name called under any law.
- (3) Any **bonus or commission** payable to the employees.
- (4) Any sum payable as **interest on any loan or borrowing from:**
 - a public financial institution (**PFI**) i.e. ICICI, IFCI, IDBI, LIC and UTI; or
 - a state financial corporation (**SFC**); or
 - a state industrial investment corporation (**SIIC**); or
 - any **scheduled bank** & co-operative Bank. Excluding Primary agricultural credit society & primary co-operative agriculture & rural development Bank.
- (5) Any sum payable by an employer in lieu of leave at the credit of his employees (**i.e. leave salary**).
- (6) Any **sum payable to Indian Railways for the use of railway assets**.
- (7) Any sum payable by the assessee as interest on any loan from NBFC. (Non Banking Financial Company) which are notified by the Central Government.
- (8) Any sum payable by the assessee to a micro or small and medium enterprise [MSME] on or before the time limit specified in section 15 of MSME ACT and not the due date u/s 139(1)

Note:

- (1) If the above payments are made **after the end of the previous year but on or before the due date of filing the return of income for that previous year**, then the deduction for these expenses **shall be allowed** in the year in which the liability to pay accrues.
- (2) As per the explanation 3D to section 43B, where any interest payable by the assessee is converted into a loan or debenture or any other instrument by which liability to pay is deferred to a Future date the interest so converted and not actually paid shall not be deemed as actual payment, hence would not be allowed as deduction - **[Circular No. - 7/2006]**
- (3) Bank guarantee does not amount to actual payment.
- (4) Electricity charges payable to the State Government is not covered under the provisions of section 43B since it is neither tax nor duty nor cess nor fee payable under any law.
- (5) Section 43B provisions are never applicable in relation to Section 36(1)(va) deduction.

Deemed Incomes - [Section 41]

This section specifies certain receipts which are deemed to be income under the head 'PGBP'.

Such receipts would attract charge even if the business to which they relate had ceased to exist prior to the year in which the liability under this section arises. The particulars of such receipts are given below:

Section	Deduction already allowed u/s	Applicability	Nature of Receipt treated as Deemed Income	Year in which taxable
41(1)	30 to 38	All assessees	Recovery of loss or expenditure or trading liability which was earlier allowed, including remission or cessation of liability effected by a unilateral act. (such sum is chargeable in the hands of successor in business also)	Year in which recovered or written-off by the assessee

Example:

Suppose an allowance or deduction has been made in any assessment year in respect of a loss, expenditure or trading liability incurred by Mr. X.

Subsequently, if Mr. X has obtained, whether in cash or in any manner whatsoever, any amount in respect of such loss or expenditure or some benefit in respect of such trading liability by way of remission or cessation thereof, the amount obtained by Mr. X, or the value of benefit accruing to him shall be taxed as income of that previous year.

It does not matter whether the business or profession in respect of which the allowance or deduction has been made is in existence in that year or not.

Further, it is also possible that after the above allowance in respect of loss, expenditure, or trading liability has been given to Mr. X, he could have been succeeded in his business by another person say Mr. Y, then, in such case, the successor i.e. Mr. Y shall be liable to be taxed in respect of any such benefit received by him during a subsequent previous year.

Section	Deduction already allowed u/s	Applicability	Nature of Receipt treated as Deemed Income	Year in which taxable
41(2)	32(1)(i)	Assessees engaged in power business	Balancing charge on assets in respect of which depreciation is claimed on SLM basis, is sold or discarded or demolished or destroyed.	Year in which the asset is sold or transferred

Note:

The concept of balancing charge has been explained in detail u/s 32(1)(i).

Section	Deduction already allowed u/s	Applicability	Nature of Receipt treated as Deemed Income	Year in which taxable
41(3)	35(2)	All assessees	Amount realised on sale of capital assets used for scientific research.	Year in which sale takes place

Note:

The above concept has been explained in detail u/s 35.

Section	Deduction already allowed u/s	Applicability	Nature of Receipt treated as Deemed Income	Year in which taxable
41(4)	36(1)(vii)	All assessees	Bad-debts earlier allowed but subsequently recovered by the assessee.	Year in which it is recovered

Miscellaneous Provisions

[Sections 43CA, 44AA, 44AB, 44AD, 44ADA, 44AE]

Full Value of Consideration for transfer of Land or Building or Land & Building as stock-in-trade - [Section 43CA]

- (1) Section 43CA has been inserted as an anti-avoidance measure to provide that:
- where the consideration for transfer of an immovable property held as stock-in-trade (i.e. land or building or land & building held as stock-in-trade);
 - is less than the stamp duty value (SDV) of such immovable property;
 - then, such SDV shall be deemed to be the full value of the consideration for the purposes of computing the 'PGBP' income.
 - The provisions of section 43CA shall not be applicable;
 - if the difference between the SDV and the consideration does not exceed 10% of the consideration received or accruing as a result of such transfer.
 - In other words, section 43CA shall not be applicable if, $(SDV - Consideration) \leq 10\% \text{ of Consideration}$.
 - in such a case, the actual consideration shall only be deemed to be the full value of consideration for the purpose of computing the 'PGBP' income.
- (2) Further, where the date of an agreement for the transfer and the date of registration of the transfer are not same;
- the SDV may be taken as on the date of the agreement for transfer instead of SDV as on the date of registration for such transfer;
 - provided, the consideration or any part thereof has been received by way of an a/c payee cheque or a/c payee bank draft or use of ECS through a bank account on or before the date of such agreement for such transfer.
- (3) The A.O. may refer the valuation of the asset to a valuation officer if the assessee claims before the A.O. that the SDV exceeds the FMV of the property as on the date

of transfer and such SDV has not been disputed in any appeal or revision or no reference has been made before any other authority, court or High Court.

- In such case, if the value ascertained by the valuation officer is less than the SDV, then, the value so ascertained by the valuation officer shall be taken as the full value of the consideration received or accruing as a result of the transfer.
- Further, if the value ascertained by the valuation officer exceeds the SDV, the SDV shall be taken as the full value of the consideration received or accruing as a result of the transfer.

Maintenance of Books of Accounts & Documents etc. - [Section 44AA]

(1) Every person carrying on:

- legal, medical, engineering or architectural profession or technical consultancy or interior decoration; or
 - any other profession as has been notified by the CBDT in the official gazette;
- whose gross receipts from the profession:
- exceeds ₹ 1,50,000 in all the 3 previous years immediately preceding the current previous year (in case of existing professions);
- OR**
- likely to exceed ₹ 1,50,000 in the current previous year (in case of profession newly set up during the current previous year)

Note:

Professions notified by the CBDT:

The profession of:

- authorised representative;
- film artist (actor, camera man, director, music director, art director, editor, singer, lyricist, story writer, screen play writer, dialogue writer and dress designer);
- company secretary; and
- information technology professionals

must compulsorily maintain books of accounts & other documents as prescribed under Rule 6F of the Income Tax Rules, 1962.

Note:

Books of accounts & other documents prescribed under Rule 6F:

- (a) Cash Book;
- (b) Journal;
- (c) Ledger;
- (d) Carbon copies of bills & receipts issued by the person whether machine numbered or otherwise serially numbered, in relation to sums exceeding ₹25;

- (e) Original bills & receipts issued to the person in respect of expenditure incurred by the person, or where such bills and receipts are not issued, payment vouchers prepared & signed by the person, provided the amount does not exceed ₹ 50. Where the cash book contains adequate particulars, the preparation and signing of payment vouchers is not required.

Further, **a person carrying on medical profession, shall be required to maintain the following in addition to the list given above:**

- (a) a daily case register in Form 3C.
(b) an inventory register having the details of stock of drugs, medicines and other consumable accessories as on the first and last day of the previous year used for his profession.

Period:

Such books & documents shall be maintained for a period of 6 years from the end of the relevant assessment year.

Place:

The books & documents shall be kept & maintained at the place where the person is carrying on the profession, or where there is more than one place, at the principal place of his profession.

However, if he maintains separate set of books for each place of his profession, such books & documents may be kept & maintained at the respective places.

- (2) Assessee carrying on specified profession, whose gross receipts does not exceed the limits specified above in point no. (1);
(3) Assessee carrying on any business or profession (other than a specified profession) being:

- **Individual or HUF:**

- whose 'PGBP' income is > ₹ 2,50,000 **or** the total sales turnover or gross receipts of such business or profession is > ₹ 25,00,000 in any one of the 3 years immediately preceding the current previous year (in case of an existing business or professions);

OR

- whose 'PGBP' income is likely to be > ₹ 2,50,000 **or** the total sales turnover or gross receipts of such business or profession is likely to be > ₹ 25,00,000 during the current previous year (in case of a new business or profession)

- **Any person (other than Individual or HUF):**

- whose 'PGBP' income is > ₹ 1,20,000 **or** the total sales turnover or gross receipts of such business or profession is > ₹ 10,00,000 in any one of the 3 years immediately preceding the current previous year (in case of an existing business or professions);

OR

- whose 'PGBP' income is likely to be > ₹ 1,20,000 or the total sales turnover or gross receipts of such business or profession is likely to be > ₹ 10,00,000 during the current previous year (in case of a new business or profession);

(4) Assessee is covered u/s 44AE or 44BB or 44BBB and claims that the profits & gains from business are lower than the profits & gains computed on a presumptive basis;

(5) Assessee is covered u/s 44AD(4) & his income exceeds the basic exemption limit;



must also compulsorily maintain books of accounts & other documents. However, no books & documents have been prescribed for such assessees in Income Tax Rules.

Therefore, such assessees shall keep & maintain such books & documents as may enable the A.O. to compute his total income in accordance with the provisions of the Income Tax Act, 1961

Tax Audit - [Section 44AB]

✓ **Assessee compulsorily liable to get the accounts audited:**

It is obligatory in the following cases for a person carrying on business or profession to get his books of accounts audited:

(a) if the **total sales turnover or gross receipts in the business > ₹ 1 crore** in any previous year. However if the aggregate of all amounts received in cash & payments made in cash does not exceed 5% of aggregate amounts during previous year, then tax audit will be applicable if gross receipts is > 10 crore rupees (i.e. not applicable till 10 crore rupees).

The Payment or receipt as the case may be, by a cheque or bank draft which is **not** A/c payee, shall be considered as made in cash.

(b) if the **gross receipts in the profession > ₹ 50 lakhs** in any previous year;

In other words if covered by 44ADA then up to 50 lakhs normally no need of tax audit u/s 44 AB. However if cash receipts are ≤ 5% of total gross receipts, then no 44 AB u/s 44ADA up to 75 lakhs.

(c) where the assessee is covered u/s 44AE or 44BB or 44BBB and claims that the profits & gains from business are lower than the profits & gains computed on a presumptive basis. (in such cases, normal monetary limits for tax audit in respect of business will not apply).

- (d) where the assessee is carrying on a notified profession u/s 44AA and he claims that the profits & gains from such profession are lower than the profits & gains computed on a presumptive basis u/s 44ADA and his total income exceeds the basic exemption limit.
- (e) where the assessee is covered u/s 44AD(4) and his income exceeds the basic exemption limit.

Note: Non-applicability:

- (1) The requirement of audit u/s 44AB does not apply to a person who declares profits & gains on a presumptive basis u/s 44AD and his total sales turnover or gross receipts is ≤ 2 crores.
Provided if the aggregate amount received during the PY. in cash, non account payee cheque, bank draft, does not exceed 5% of the total turnover /gross receipts of the PY., then 44AB will not be applicable up to 3 crores.
- (2) Further, the requirement of audit u/s 44AB does not apply to a person who derives income of the nature referred to in section 44B and 44BBA.

✓ **Audit Report:**

The persons mentioned above are required to furnish by the specified date a report of the audit in the prescribed forms. For this purpose, CBDT has prescribed under Rule 6G following forms:

	Audit Report	Statement of Particulars
In case of a person who carries on business or profession and whose books are required to be audited by or under any law.	Form 3CA	Form 3CD
In case of a person who carries on business or profession but not being a person referred as above.	Form 3CB	Form 3CD

✓ **Audit:**

In cases where the accounts of a person are required to be audited by or under any other law before the specified date, it will be sufficient if the person gets his accounts audited under such other law before the specified date and also furnish by the said date the report of audit in the prescribed form in addition to the report of audit required under such other law.

For example, section 44AB does not imply a second or separate audit of accounts of companies whose accounts are already required to be audited under the provisions

of Companies Act, 2013. Section 44AB only requires that companies should get their accounts audited under the Companies Act, 2013 before the specified date and in addition to the report required to be given by the auditor under the Companies Act, 2013 furnish a report for income tax purposes in the form to be prescribed in this behalf by the CBDT.

✓ **Specified date:**

Date one month prior to the due date of filing the return of income as specified u/s 139(1).

Presumptive Income of any Business - [Section 44AD]

Eligible Assesseees	Resident individual, HUF & partnership firm (except LLP) , who has not claimed deduction u/s 10A, 10AA, 10B, 10BA or 80-IA, 80-IB, 80-IC, 80-ID, 80-IE, 80JJA, 80JJAA, 80LA, 80QQB, 80RRB.
Eligible Business	Any business having total turnover or gross receipts of < ₹ 2 crores (except the business of plying, hiring & leasing goods carriages as the same is covered u/s 44AE).
Persons Not Eligible for Presumptive Taxation Scheme	(a) person carrying on specified profession as referred u/s 44AA(1) ; or (b) person earning income in the nature of commission or brokerage ; or (c) person carrying on agency business.
Amount of Presumptive Income	8% of total turnover or gross receipts or such higher sum as declared by the assessee shall be deemed to be the 'PGBP' income. Lower presumptive income u/s 44AD: 6% of total turnover or gross receipts or such higher sum as declared by the assessee shall be deemed to be the 'PGBP' income in respect of turnover which is received by way of account payee cheque or account payee bank draft or by use of electronic clearing system through a bank account during the previous year or before the due date of filing of return u/s 139(1) in respect of that previous year.
No Deduction u/s 30 to 38	All deductions allowable u/s 30 to 38 shall be deemed to have been allowed in full and no further deduction shall be allowed.
Maintenance of Books of Accounts & Requirement of Tax Audit	Eligible assesseees opting for the presumptive taxation scheme u/s 44AD are not required to maintain books of account u/s 44AA or get them audited u/s 44AB.

	<p>Note:</p> <p>Section 44AB makes it obligatory for every person carrying on business to get his accounts of any previous year audited if his total sales turnover or gross receipts > ₹ 1 crore.</p> <p>However, if an eligible person opts for presumptive taxation scheme as per section 44AD(1), he shall not be required to get his accounts audited if the total turnover or gross receipts ≤ ₹ 2 Crores.</p> <p>Provided if the aggregate amount received during the P.Y. in cash, non account payee cheque, bank draft, does not exceed 5% of the total gross receipts of the P.Y., then 44AB will not be applicable up to 3 crores.</p>
Benefit of Chapter VI-A Deductions	Deductions available under chapter VI-A i.e. deductions u/s 80C to 80U shall be available out of such presumptive income.
Depreciation for subsequent previous years	WDV of any asset of such business shall be computed, as if the depreciation had been allowed in earlier years.
Restrictions on Presumptive Provisions	<p>As per the provisions of section 44AD(4), if an eligible assessee declares profit for any previous year as per section 44AD(1); and declares profit for any of the next 5 previous years not in accordance with section 44AD(1), then, such assessee shall not be eligible to claim the benefit u/s 44AD(1) for next 5 previous years subsequent to the previous year in which the profit has not been declared as per section 44AD(1).</p> <p>Further, as per the provisions of section 44AD(5), an eligible assessee to whom the provisions of section 44AD(4) are applicable and whose total income for that previous year exceeds the basic exemption limit has to maintain books of account u/s 44AA and get them audited and furnish a report of such audit u/s 44AB.</p>
Advance Tax	The assessee eligible for presumptive provisions is required to pay advance tax by 15th March of the financial year.

Presumptive Income of Specified Professions - [Section 44ADA]

<p>Eligible Assessee</p>	<p>Presumptive provisions of section 44ADA shall be applicable to:</p> <ul style="list-style-type: none"> - a resident assessee being an individual or a partnership firm (not a L.L.P.) who is engaged in any specified profession; and - gross receipts from such profession is \leq ₹ 50 lakhs. <p>It will be 75 lakhs provided the aggregate amount received during the P.Y. in cash, non account payee cheque, bank draft, does not exceed 5% of total gross receipts.</p> <p>Specified Profession:</p> <p>Professions as referred to in section 44AA(1) i.e. a person carrying on:</p> <ul style="list-style-type: none"> - legal, medical, engineering or architectural profession or technical consultancy or interior decoration; or - any other profession as notified by the CBDT in the official gazette. <div style="border: 1px solid black; padding: 5px;"> <p>Professions notified by the CBDT:</p> <p>The profession of:</p> <ul style="list-style-type: none"> - authorised representative; - film artist (actor, camera man, director, music director, art director, editor, singer, lyricist, story writer, screen play writer, dialogue writer and dress designer); - company secretary; and - information technology professionals </div>
<p>Amount of Presumptive Income</p>	<p>50% of gross receipts or such higher sum as declared by the assessee shall be deemed to be the 'PGBP' income.</p>
<p>No Deduction u/s 30 to 38</p>	<p>All deductions allowable u/s 30 to 38 shall be deemed to have been allowed in full and no further deduction shall be allowed.</p>
<p>Maintenance of Books of Accounts & Requirement of Tax Audit</p>	<p>Eligible assessee opting for the presumptive taxation scheme u/s 44ADA are not required to maintain books of account u/s 44AA or get them audited u/s 44AB.</p>
<p>Benefit of Chapter VI-A Deductions</p>	<p>Deductions available under chapter VI-A i.e. deductions u/s 80C to 80U shall be available out of such presumptive income.</p>
<p>Depreciation for subsequent previous years</p>	<p>WDV of any asset of such business shall be computed, as if the depreciation had been allowed in earlier years.</p>

Option to claim lower profits	Assessee may claim that his profits & gains from the aforesaid profession are lower than the profits & gains deemed to be his income u/s 44ADA(1); and if his total income exceeds the basic exemption limit for that previous year, then, he has to maintain books of account u/s 44AA and get them audited and furnish a report of such audit u/s 44AB.
Advance Tax	The eligible assessee is required to pay advance tax by 15th March of the financial year.

Presumptive Income of Business of plying, hiring & leasing of goods carriages - [Section 44AE]

Eligible Assessee	Section 44AE provides for estimating business income of: <ul style="list-style-type: none"> - an assessee who is engaged in the business of plying, hiring or leasing of goods carriages; and - does not owns more than 10 goods carriages at any time during the previous year 	
Amount of Presumptive Income	For heavy goods vehicles	For vehicles other than heavy goods vehicle
	₹ 1,000 per ton of gross vehicle weight or unladen weight (as the case may be) for every month or part of a month during which such vehicle is owned by the assessee in the previous year	₹ 7,500 for every month or part of a month during which such vehicle is owned by the assessee in the previous year
No Deduction u/s 30 to 38	All deductions allowable u/s 30 to 38 shall be deemed to have been allowed in full and no further deduction shall be allowed.	
Maintenance of Books of Accounts & Requirement of Tax Audit	Eligible assessee's opting for the presumptive taxation are not required to maintain books of account u/s 44AA or get them audited u/s 44AB.	
Benefit of Chapter VI-A Deductions	Deductions available under chapter VI-A i.e. deductions u/s 80C to 80U shall be available.	
Depreciation for subsequent previous years	WDV of any asset of such business shall computed, as if the depreciation had been allowed in earlier years.	
Option to claim lower profits	Books of accounts to be maintained u/s 44AA and provisions of tax audit u/s 44AB has to be complied with.	

Note:

(1) Heavy Goods Vehicle:

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kilograms.

(2) Gross Vehicle Weight:

Gross vehicle weight is the total weight of the vehicle and load certified and registered by the registering authority permissible for that vehicle.

(3) Unladen Weight:

Unladen weight means the weight of a vehicle or trailer including all equipment ordinarily used with the vehicle or trailer when working but excluding the weight of driver or attendant and where alternative parts or bodies are used the unladen weight of the vehicle means the weight of the vehicle with the heaviest such alternative body or part

CLASSWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Dr. Krishna furnishes you the following information:

Income and Expenditure Account for the year ended 31st March, 2024.

	₹		₹
To Medicines consumed	2,42,000	By Fee Receipts	8,97,500
To Staff salary	1,65,000	By Rent	27,000
To Hospital consumables	47,500	By Dividend from Indian companies	9,000
To Amount paid to Scientific Research Association approved u/s 35	50,000		
To Rent paid	60,000		
To Administrative expenses	1,23,000		
To Net income	2,46,000		
	9,33,500		9,33,500

- (i) Rent paid includes rent for his residential accommodation of ₹ 30,000 (paid by cheque).
- (ii) Hospital equipments (eligible for depreciation @ 15%)
01.04.2023 Opening WDV ₹ 5,00,000
07.12.2023 Acquired (Cost) ₹ 2,00,000
- (iii) Medicines consumed include medicines (cost) ₹10,000 used for Dr. Krishna'a family.
- (iv) Rent received relates to a property situated at Mysore (Gross Annual Value). The municipal tax of ₹ 2,000 paid in December, 2023 has been included in the "administrative expenses".
- (v) He received ₹ 5,000 per month as salary from Full Cure Hospital. This has not been included in the "fee receipts" credited to income and expenditure account.

Compute Dr. Krishna's professional income for the year ended 31.3.2024.

Question 2

Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2024.

Trading and Profit and Loss Account for the year ended 31.3.2024

	₹		₹
To Opening stock	90,000	By Sales	12,11,500
Purchases	10,04,000	Income from UTI	2,400
Gross Profit	3,06,000	Other business receipts	6,100
		Closing Stock	1,80,000
	14,00,000		14,00,000
To Salary	60,000	Gross Profit b/d	3,06,000
Rent and Rates	36,000		
Interest on loan	15,000		
Depreciation	1,05,000		
Printing and Stationery	23,200		
Postage and Stationery	1,640		
Loss on Sale of Shares (Short - term)	8,100		
Other general expense	7,060		
Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

(i) It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

Opening stock ₹ 9,000

Closing stock ₹ 18,000

(ii) Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent of ₹ 2,000.

(iii) The whole amount of printing and stationery was paid in cash.

(iv) The depreciation provided in the Profit and Loss Account ₹1,05,000 was based on the following information :

The written down value of plant and machinery is ₹ 4,20,000. A new plant falling under the same Block of depreciation of 15% was bought on 1.7.2023 for ₹ 70,000. Two old plants were sold on 1.10.2023 for ₹ 50,000.

(v) Rent and rates includes sales tax liability of ₹ 3,400 paid on 7.4.2024.

(vi) Other general expenses include ₹ 2,000 paid as donation to a Public Charitable Trust and penalty of ₹ 3,000 for contravention of GST.

You are required to advise Mr. Sivam whether he can offer his business income under section 44AD i.e. presumptive taxation.

Question 3.

Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2024:

Manufacturing, Trading and Profit & Loss A/c for the year ended 31.03.2024.

Particulars	₹	Particulars	₹
To Opening Stock	71,000	By Sales	32,00,000
To Purchase of Raw Materials	16,99,000	By Closing stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		
	34,00,000		34,00,000
To Administrative charges	3,26,000	By Gross Profit companies	10,60,000
To GST penalty	5,000	By Dividend from domestic companies	15,000
To GST paid	1,10,000	By Income from agriculture (net)	1,80,000
To General Expenses	54,000		
To Interest to Bank	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		12,55,000

Following are the further information relating to the financial year 2023-24.

- (1) Administrative charges include ₹ 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is ₹ 36,000.
- (2) The assessee paid ₹33,000 in cash to a transport carrier on 29.12.2023. This amount is included in manufacturing expenses
- (3) Bank term loan interest actually paid upto 31.03.2024 was ₹ 20,000 and the balance was paid in Dec. 2024.
- (4) Depreciation allowable under the act is to be computed on the basis of the following information.

	₹
Plant & Machinery (depreciation rate @ 15%)	
Opening WDV as on 01.4.2023	12,00,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the business income of Mr. Raju for the assessment year 2024-25.

Question 4

Mr. X commenced the business of operating goods vehicles on 1.4.2023. He purchased the following vehicles during the P.Y.2023-24. Compute his income under section 44AE for A.Y.2024-25.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2023
(2)	6,500	1	15.03.2024
(3)	10,000	3	16.07.2023
(4)	11,000	1	02.01.2024
(5)	15,000	2	29.08.2023
(6)	15,000	1	23.02.2024

Would your answer change if the goods vehicles purchased in April, 2023 were put to use only in July, 2023?

Question 5

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2023. He incurred capital expenditure of ₹ 80 lakh, ₹ 60 lakh and ₹ 50 lakh, respectively, on purchase of land and building during the period January, 2023 to March, 2023 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2023. The cost of land included in the above figures are ₹ 50 lakh, ₹ 40 lakh and ₹ 30 lakh, respectively. Further, during the P.Y.2023-24, it incurred capital expenditure of ₹ 20 lakh, ₹ 15 lakh & ₹ 10 lakh, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses. Compute the income under the head “Profits and gains of business or profession” for the A.Y. 2024-25 and the loss to be carried forward, assuming that Mr. A has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading “C. – Deductions in respect of certain incomes”. The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32) for the A.Y. 2024-25 is ₹ 16 lakhs, ₹ 14 lakhs and ₹ 31 lakhs, respectively. Also, assume that expenditure incurred during the previous year 2023-24 are by account payee cheque or use of ECS through bank account.

Question 6

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of ₹ 7,00,000 before deduction of the following items:

- (1) Salary of ₹ 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- (2) Depreciation on plant and machinery under section 32 (computed) ₹ 1,50,000.
- (3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest ₹ 5,00,000.

Compute:

- (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
- (ii) Allowable working partner salary for the assessment year 2024-25 as per section 40(b).
- (iii) Compute the PGBP Income chargeable to tax in the hands of the P'ship firm.

Question 7

Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil. Unit A commenced operations on 1.4.2022 and it claimed deduction of ₹ 100 lacs incurred on purchase of two buildings for ₹ 50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y. 2023-24. However, in February, 2024. Unit A transferred one of its buildings to Unit B. Examine the tax implications of such transfer in the hands of Mr. Arnav.

CLASSWORK SOLUTIONS

Answer 2

Mr. Sivam

Computation of Income from Business (on actual basis) for A.Y. 2024-2025

Particulars	₹	₹
Net Profit as per P & L A/c.		50,000
Add : Expenses debited to P & L A/c. but disallowed		
1 Depreciation as per books	1,05,000	
2 Unreasonable salary to brother [Section 40A(2)]	2,000	
3 Printing and Stationery, assumed to be paid in cash on a SINGLE DAY [Section 40A(3)]	23,200	
4 Loss on sale of shares	8,100	
5 Penalty for contravention of GST	3,000	
6 Donation to Public Charitable trust, allowed u/s. 80G from GTI	2,000	1,43,300
Add: Income not credited to P & L A/c. but taxable		
Omission of closing stock		18,000
Less: Incomes credited to P & L A/c. not taxable under this head		(2,400)
Income from UTI taxable under sec. 56 i.e. I.F.O.S.		
Less: Expenses not debited to P & L A/c. but allowed		
1 Depreciation u/s. 32		
Opening WDV	4,20,000	
Add: Addition on 1-7-2023	70,000	
Less: Sale on 1-10-2023	(50,000)	
Qualifying Amount for depreciation	4,40,000	
x Block rate	15%	66,000
2 Omission of Opening Stock	9,000	(75,000)
INCOME FROM BUSINESS (actual basis)		1,33,900

Computation of Income from Business (on presumptive basis) for A.Y. 2024-2025

	₹
Sales	12,11,500
Add : Other business receipts	6,100
Turnover / Gross receipts	12,17,600
x Rate of profit u/s. 44AD	8.00%
INCOME FROM BUSINESS (presumptive basis)	97,408

Conclusion:

Since the income calculated on actual basis is greater than the income on presumptive basis, ₹ 1,33,900 i.e. income on actual basis shall be treated as the taxable income from business.

If the income on actual basis would have been lower than the income on presumptive basis and the assessee wishes to declare the lower amount as his income, it is possible but the provisions of Section 44AA- Compulsory maintenance of books and Section 44AB- Compulsory tax audit shall be applicable to him.

Answer 3

Computation of total income of Mr. Raju for the A.Y. 2024-25.

Particulars	₹	₹
Profits and gains of business or profession		5,00,000
Net profit as per profit and loss account		
Add: Excess commission paid to brother disallowed under section 40A(2)	10,000	
Disallowance under section 40A(3) is not attracted since the limit for one time cash payment is ₹ 35,000 in respect of payment to transport operators. Therefore, amount of ₹ 33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
Bank term loan interest paid after the due date of filing of return under section 139(1) - disallowed as per section 43B	40,000	
GST penalty paid disallowed [See Note 2 below]	5,000	
Depreciation debited to profit and loss account	2,00,000	2,55,000
		7,55,000

Less:	Dividend from domestic companies taxable u/s 56 i.e. I.F.O.S.	15,000	
	Income from agriculture [Exempt under section 10(1)]	1,80,000	
	Depreciation under the Income-tax Act, 1961		
	(As per working note)	2,85,000	(4,80,000)
	Income from Business		2,75,000

Working Note:

Computation of depreciation under the Income-tax Act, 1961

Particulars	₹
Depreciation@15% on ₹ 14 lakh (Opening WDV of ₹ 12 lakh plus assets purchased during the year and used for more than 180 days ₹ 2 lakh)	2,10,000
Depreciation @7.5% on ₹ 2 lakh (Cost of assets used for less than 180 days)	15,000
Additional Depreciation	60,000
2,00,000 × 20% × 50% = 20,000	
2,00,000 × 20% × 100% = 40,000	
	2,85,000

Notes:

Where the imposition of penalty is not for delay in payment of GST but for contravention of provisions of the GST Act, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.

Since the question only mentions “GST penalty paid” and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction.

Answer 4

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2023-24, he is eligible to opt for presumptive taxation scheme under section 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	(2)	(3)	(4)
Number of Vehicles	Date of Purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08.2023	8	16
1	23.02.2024	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2023	12	24
1	15.3.2024	1	1
3	16.7.2023	9	27
1	2.1.2024	3	3

The presumptive income of Mr. X under section 44AE for A.Y.2024-25 would be - ₹ 6,82,500, i.e., 55 × ₹ 7,500, being for other than heavy goods vehicle + 18 × ₹ 1,000 × 15 ton being for heavy goods vehicle .

The answer would remain the same even if the two vehicles purchased in April, 2022 were put to use only in July, 2023, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

Answer 5

Computation of profits and gains of business or profession for A.Y.2024-25

Particulars	₹
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	31
Less: Depreciation under section 32	
10% of ₹ 30 lakh, being (₹ 50 lakh – ₹ 30 lakh + ₹10 lakh)	(3)
Income chargeable under “Profits and gains from business or profession”	28

Computation of income/loss from specified business under section 35 AD

	Particulars	Food Grains	Sugar	Total
		₹ (in lakhs)		
(A)	Profits from the specified business of setting up a warehousing facility (before providing deduction under section 35AD)	16	14	30
	Less: Deduction under section 35AD			

(B)	Capital expenditure incurred prior to 1.4.2023 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2023 (excluding the expenditure incurred on acquisition of land) = ₹ 30 lakh (₹ 80 lakh – ₹ 50 lakh) and ₹ 20 lakh (₹ 60 lakh – ₹ 40 lakh)	30	20	50
(C)	Capital expenditure incurred during the P.Y.2023-24	20	15	35
(D)	Total capital expenditure (B + C)	50	35	85
(E)	Deduction under section 35AD			
	100% of capital expenditure (food grains)	50		
	100% of capital expenditure (sugar)		35	
	Total deduction u/s 35AD for A.Y. 2024-25	50	35	85
(F)	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(34)	(21)	(55)

Notes:

- (i) Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2024-25 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 01.04.2012.
- (ii) However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
- (iii) Mr. A can, however, claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2023-24.
- (iv) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ₹ 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

HOMEWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during F.Y. 2023-24 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y. 2024-25. Assume that all the assets were purchased by way of account payee cheque.

Sl. No.	Description	Date of acquisition	Date when put to use	Amount ₹
1	Computer including computer software	27 Sept., 23	1 Oct., 23	35,000
2	Computer UPS	2 Oct., 23	8 Oct., 23	8,500
3	Computer printer	1 Oct., 23	1 Oct., 23	12,500
4	Books (other than annual publications are of ₹ 12,000)	1 Apr., 23	1 Apr., 23	13,000
5	Office furniture	1 Apr., 23	1 Apr., 23	3,00,000
6	Laptop	26 Sep., 23	8 Oct., 23	43,000

Question 2

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 ₹ 120 crore. The said plant and machinery included second hand plant and machinery bought for ₹ 20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of ₹ 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.

Question 3

Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2023. He incurred capital expenditure of ₹ 50 lakh during the period January, 2023 to March, 2023 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2023. Further, during the P.Y. 2023-24, he incurred capital expenditure of ₹ 2 crore (out of which ₹ 1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head “Profits and gains of business or profession” for the A.Y. 2024-25, assuming that he have fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading “C – Deductions in respect of certain incomes”.

The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y. 2024-25 is ₹ 25 lakhs. Assume that he also have another existing business of running a four-star hotel in Coimbatore, which commenced operations ten years back, the profits from which are ₹ 120 lakhs for the A.Y. 2024-25. Also assume that expenditure incurred were paid by account payee cheque or use of ECS through bank account.

Question 4

Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2024 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the financial year 2023-24, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

Particulars	Amount in ₹
(1) Salary to its employees (credited and paid in March, 2024	12,00,000
(2) Directors' remuneration (credited in March, 2024 and paid in April 2024)	28,000

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2024 at the time of payment and remitted the same in July, 2024?

Question 5

During the financial year 2023-24, the following payments/expenditure were made/incurred by Mr. Yuvan Raja, a resident individual (whose turnover during the year ended 31.3.2023 was ₹ 99 lacs):

- (i) Interest of ₹ 12,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;
- (ii) ₹ 3,00,000 was paid as salary to a resident individual without deduction of tax at source;
- (iii) Commission of ₹ 16,000 was paid to Mr. Vidyasagar on 2.7.2023 without deduction of tax at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a) (ia) of the income-tax Act, 1961.

Question 6

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

	₹
Financial year 2020-21	1,15,000
Financial year 2021-22	1,18,000
Financial year 2022-23	2,10,000

What is his obligation regarding maintenance of books of accounts for Assessment Year 2024-25 under section 44AA of Income-tax Act, 1961?

Question 7

Mr. Praveen engaged in retail trade, reports a turnover of ₹ 1,98,50,000 for the financial year 2023-24. His income from the said business as per books of account is ₹ 13,20,000 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 provisions of presumptive taxation under section 44AD.

- (i) Is Mr. Praveen also eligible to opt for 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 assuming that whole of the turnover represents cash receipts.
- (iii) In case Mr. Praveen does not opt for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?
- (iii) What is the due date for filing his return of income under both the options?

Question 8

Mr. Venus, engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2024:

	(₹ in lacs)
Opening WDV of Plant and Machinery	20
New machinery purchased on 1-9-2023	10
New car purchased on 1-12-2023	8
Computer purchased on 3-1-2024	4

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.

- Computer has been installed in the office.
 - During the year ended 31-3-2023, a new machinery had been purchased on 31-10-2022, for ₹ 10 lacs. Additional depreciation, besides normal depreciation, had been claimed thereon.
 - Depreciation rate for machinery may be taken as 15%.
- Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31.3-2024.

Question 9

Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains from business or profession for the Assessment Year 2024-25.

- (i) Construction of school building in compliance with CSR activities amounting to ₹ 5,60,000.
- (ii) Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to ₹ 4,50,000.
- (iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted. The sales for the previous year 2022-23 was ₹ 202 lakhs.
- (iv) Commodities transaction tax paid ₹ 20,000 on sale of bullion.

Question 10

Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:

- (i) For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.
- (ii) Where a person follows mercantile system of accounting, an expenditure of ₹ 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of ₹ 25,000 through a cheque crossed as "& Co., ₹ 25,000 can be the profits and gains of business under section 40A(3A) in the year of payment.
- (iii) 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".
- (iv) The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by a draft, on 27.12.2023 is a deductible expenditure under section 36.

- (v) 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%.

Question 11

Examine, with reasons, the allowability of the following expenses under the Income-tax Act, 1961 while computing income from business or profession for the Assessment Year 2024-25:

- (i) Provision made on the basis of actuarial valuation for payment of gratuity ₹ 5,00,000. However, no payment on account of gratuity was made before due date of filing return.
- (ii) Purchase of oil seeds of ₹ 50,000 in cash from a farmer on a banking day.
- (iii) Tax on non-monetary perquisite provided to an employee ₹ 20,000.
- (iv) Payment of Rs. 50,000 by using credit card for fire insurance.
- (v) Salary payment of ₹ 2,00,000 outside India by a company without deduction of tax.
- (vi) Payment made in cash ₹ 30,000 to a transporter in a day for carriage of goods

Question 12

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- (a) Payment made in respect of a business expenditure incurred on 16th February, 2023 for ₹ 25,000 through a cheque duly crossed as “& Co.” is hit by the provisions of section 40A(3).
- (b) Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a resident as rent or royalty, will result in disallowance while computing the business income where the resident payee has not paid the tax due on such income.

Question 13

R, who is carrying on a business whose accounts have been subject to tax audit regularly, submits his profit & loss account for the year ending 31.3.2024.

	₹		₹
Office expenses	25,600	Gross profit	5,23,600
Audit fees	32,000	Sundry receipt	11,000
Legal expenses	18,000	Customs duties recovered from the government	

Depreciation on Machinery	24,000	(Earlier not allowed as deduction)	22,000
Salary to staff	84,000	Bad debts recovered (earlier allowed as deduction)	6,000
Bonus paid to staff	45,000	Gift from son	30,000
Contribution to an approved gratuity fund	24,000		
Outstanding liability in respect of GST	24,000		
Rent payable to railways	1,20,000		
General expenses	36,000		
Net Profit	1,60,000		
	5,92,600		5,92,600

Other relevant particulars:

- Bonus payable to employees according to the payment of Bonus Act, 1965, comes to ₹ 45,000 and this amount was paid on 13.07.2024.
- Depreciation on machinery shown in the Profit and Loss Account is calculated according to the income-tax provisions.
- General expenses include payment of ₹ 12,000 to an approved and notified education institute for the purpose of carrying on research in social sciences. The research is, however, not related to the business of the assessee.
- During the previous year 2023-24, R also makes a capital expenditure of ₹ 25,000 for the purpose of carrying on a scientific research related to his business. This expenditure is, however, not recorded in the Profit and Loss Account.
- Outstanding liability in respect of GST is paid as follows: ₹ 5,000 on 11.4.2024 ₹ 3,000 on 5.5.2023; ₹ 6,000 on 30.6.2024 and the balance on 10.11.2024.
- Audit fee of ₹ 32,000 was credited on 31.3.2024. No tax has been deducted at source.
- Outstanding liability in respect of rent payable to railways is paid as follows: ₹ 90,000 on 15.6.2024 and the balance on 14.12.2024.

Compute his income from business for the assessment year 2024-25. Assume the due date of filing return of income is 31st October.

Question 14

From the particulars given below compute the business income for the assessment year 2024-25.

Profit and Loss Account

	₹		₹
To salary to staff	2,92,000	By gross profit	8,01,000
Bad debts	15,000	By rent of quarters given to Employee	50,000
Bonus	30,000	By Customs duty recovered from Govt, (not allowed earlier)	60,000
Reserve for bad & doubtful debts	11,000	By Bad debts recovered (Out of which 5,000 were not allowed earlier)	15,000
Provision for income tax	25,000	By Sundry Receipts	10,000
Expenditure on acquisition of copy Right	12,000		
Cost of extension of office building	36,000		
Postage expenses	8,000		
Legal expenses	12,000		
Expenses on diwali	15,000		
General expenses	7,000		
GST	69,000		
Lump sum amount paid to acquire technical know how	30,000		
Lump sum amount paid to acquire a patent right	40,000		
Legal expenses regarding income tax appeal	24,000		
Net profit	3,10,000		
	9,36,000		9,36,000

Other relevant information are:

- General expenses include expenditure of Rs.5,000, incurred on the training of an employee.
- GST amounting to ₹ 42,000 was due on 31.3.2024 the due date of deposit under GST is 20.4.2024. It is deposited as under:
 - ₹ 35,000 on 29.6.2024
 - ₹ 7,000 on 5.11.2024
- Salary staff includes a payment of ₹ 30,000 paid to a relative employee which is considered to be unreasonable upto ₹ 5,000.

4. Provisions for income-tax is excessive to the tune of ₹ 5,000.
5. Bonus includes ₹ 20,000 due on 31.3.2024 which is paid on 2.11.2024
6. The particulars about the assets of the business are as under:
 - (i) Building (Office) W.D.V. on 1.4.2023 ₹ 5,00,000
 - (ii) Godown W.D.V. on 1.4.2023 ₹ 3,00,000 (iii) Plant and Machinery W.D.V. on 1.4.2023 Rs.2,80,000
7. Technical know - how was acquired on 1.11.2023 from an institution, which was wholly financed by Government of India.
8. Due date of furnishing the return of income is 30.9.2024.

Question 15

The profit and loss account of X Ltd. for the year ending March 31, 2024 is given below:

	₹		₹
Goods & Service Tax	50,000	Sales	20,10,000
Other expenses	14,15,000		
Net profit	5,45,000		
	20,10,000		20,10,000

Other information:

1. Out of GST of ₹ 50,000, only ₹ 47,000 is paid. The payment is made as follows -
 - a. ₹ 40,000 on September 2, 2023;
 - b. ₹ 4,000 on September 12, 2024; and
 - c. ₹ 3,000 on November 1, 2024.
2. Return of income is submitted on November 10, 2024.
3. During the previous year 2023-24, the following payments are made in respect of expenses pertaining to earlier years-
 - a. bonus to employee pertaining to the PY 2021-22 paid on April 30, 2023: ₹ 15,000;
 - b. customs duty pertaining to the PY 2021-22 paid on Dec. 1, 2023 : ₹ 25,000;
 - c. electricity bill payable to Bombay Electricity Co. (owned by State Govt.) pertaining to PY 2021-22 paid on May 3, 2023 : ₹ 35,000;
 - d. excise duty pertaining to the PY 2022-23 paid on May 20, 2023: ₹ 40,000; and
 - e. leave salary payable to employees pertaining to the PY 2022-23 paid on December 2, 2023: ₹ 45,000.

Assume that due date of filing the ROI for P.Y. 23-24 is 31.10.2024

Question 16

From the P&L a/c of X, who is trader and commission agent, ascertain his business income.

Particulars	₹	Particulars	₹
General expenses	13,400	Gross profits	3,15,550
Bad debts	22,000	Commission	8,600
Advance tax	8,000	Brokerage	37,000
Insurance	600	Sundry receipts	2,500
Salary to staff	26,000	Bad debt recovered (earlier allowed as deduction)	11,000
Salary to X	45,000	Interest on debentures (i.e., net amount ₹ 22,500 + TDS : ₹ 2,500)	25,000
Interest on overdraft	4,000	Interest on deposit with a company (non-trade) (net interest : ₹ 11,700 + TDS: ₹ 1,300)	13,000
Interest on loan to Mrs. X	42,000		
Interest on capital of X	23,000		
Depreciation	48,000		
Advertisement expenditure	7,000		
Contribution to employees' RPF	13,000		
Net profit	1,60,600		
	4,12,600		4,12,600

Other information:

- The amount of depreciation allowable is ₹ 37,300 as per the Income-tax Rules.
- Advertisement expenditure includes ₹ 3,000, being cost of permanent signboard fixed on office premises.
- Business Income of ₹ 4,500, accrued during the previous year, is not recorded in the P&L A/c.
- General expenses include (a) ₹ 500 given to Mrs. X for arranging a party in honour of a friend who has recently come from Canada (b) ₹ 1,000 being contribution to a political party.
- Loan was taken from Mrs. X for payment of arrears of income tax.

Question 17

X furnishes the following Profit and Loss Account

Particulars	₹	Particulars	₹
Office expenses	45,000	Gross profits	8,03,000
Sundry expenses	39,000	Sundry receipts	11,000
Entertainment expenditure	5,000	Gift received from father	43,000
Depreciation on plant and machinery	23,000	Customs duties recovered (earlier allowed as deduction)	32,500
Legal charges / expenses	4,000	Bad debts recovered (not allowed as deduction earlier)	7,100
Extension of building	6,000		
Audit fees	12,000		
Salary to staff :			
• Salary	43,000		
• Bonus	36,000		
Contribution towards:			
• Employees' recognized PF	15,000		
• Unapproved gratuity fund	4,000		
• GST	38,000		
Provision for GST	25,000		
Payment to an approved scientific research association for carrying on scientific research	19,000		
Net profit	5,82,600		
	8,96,600		8,96,600

Other information:

- As shown in the Profit and Loss Account, ₹ 19,000 is paid to a scientific research association for the purpose of carrying on approved scientific research in natural science, not related to the business of X. Besides, X purchases a plant of ₹ 30,000 for the purpose of carrying on scientific research related to his business. Neither cost of plant nor depreciation thereon is debited to profit and loss account.
- Out of bonus of ₹ 36,000, ₹ 4,000 is paid during 2023-24 and ₹ 26,000 is paid by July 31, 2024 (being the due date of furnishing return of income). The balance of ₹ 6,000 is, however, paid on November 11, 2024.
- Depreciation on plant and machinery and extension of building as per income tax provision is ₹ 19,000.

4. GST of ₹ 38,000 includes (a) interest for late payment of GST : ₹ 1,200; (b) penalty for evading GST : ₹ 10,000.
5. Provision for GST represents an outstanding liability, which is, however, paid on July 10, 2024. i.e. paid before due date of filing return u/s 139(1) read with 43B.
6. Salary to staff includes a payment of pension of ₹ 5,000 to the widow of a former employee.

Ascertain the Business income.

Question 18

X Ltd., Indian company, furnishes the following Profit and Loss Account

Particulars	₹	Particulars	₹
Salary to staff	2,45,000	Gross profit	15,58,000
Expenditure on promotion of family planning among the employees	2,500	Rent of flats given to officers	12,000
Contribution to a National Laboratory for carrying out scientific research	1,06,000	Interest on bank deposits	17,000
GST	2,000	Short-term capital gains	3,000
Bad debts written off	3,000	Sundry receipts	5,000
Exp. on issue of shares for setting up an undertaking (cost of project: ₹ 10 lacs)	18,000		
Reserve for of advance income tax	13,000		
Reserve for future losses	20,000		
Car expenses	9,000		
Depreciation:			
-Machinery	18,000		
-Car	3,000		
-Furniture	5,000		
-Building	3,000		
Office expenses	7,500		
Rent and repairs of building	3,000		
Municipal taxes flats given to officers	7,000		
Sundry expenses	26,500		
Income-tax	500		
Dividend tax	700		
Net profit	11,02,300		
	15,95,000		15,95,000

Other information:

1. Expenditure on family planning is capital expenditure
2. Car is utilized partly for private purposes by a director. In the past years, one-fourth of this expenditure was disallowed.
3. Sundry expenses include ₹ 9,000 being payment of printing bill to relative of the managing director; payment is unreasonable to the extent of ₹ 4,700.
4. Salary includes payment of ₹ 21,000 in cash to an employee. Salary also includes “medicclaim” insurance premium for the benefit of employees of ₹ 15,000 out of which ₹ 6,000 is paid in cash.
5. Through amount of depreciation on building, car and furniture is calculated as per tax provisions, depreciation in respect of machinery is excessive to the extent of ₹ 2,000.
6. ₹ 1,06,000 being payment to National Laboratory is qualified for deduction under section 35(2AA) @100%.
7. The company has deposited ₹ 2,40,000 with Maruti udyog Ltd. on March 1, 2024 for purchasing Maruti Alto car. The car is likely to delivered by June 2024. The said amount is not debited to Profit and Loss Account.
8. During the year, the company pays ₹ 15,00,000 as compensation to employees on voluntary retirement under the voluntary retirement scheme of the company. The amount is not debited to the P & L A/c.
9. On March 16, 2024, the company gets a refund of GST of ₹ 3,000 (it was allowed as deduction for the previous year 2022-23).The amount is not credited to the profit and loss account, as the Commissioner’s appeal against the refund is still pending in the Delhi High Court. Determine the taxable income of the assessee-company.

Question 19

X is a businessman in Mumbai. Determine his net income:

Opening stock	1,04,000	Sales	92,51,000
Purchases	80,08,750	Closing stock	2,10,000
Salaries and Wages	1,75,000		
Rent and rates	1,31,000		
Commission	21,500		
Household expenses	20,000		
Income tax	36,100		
Advertisement	5,000		

Postage and telegram	4,000		
Interest on own capital	84,000		
Reserve for bad debts	3,400		
Depreciation on furniture	18,000		
Net profit	8,50,250		
	92,61,000		92,61,000

Other Particulars:

- Closing stock and opening stock has consistently been valued at 10 per cent below cost price.
- Depreciation on furniture, as per tax provisions, is ₹ 17,200.
- Amount of sales, includes a sum of ₹ 41,250 representing the value of goods withdrawn for the use of X's family members. These goods were purchased at cost of ₹ 27,850. Market value of these goods is ₹ 45,240.
- Household expenses include a contribution of ₹ 1,000 towards PPF.
- On September 20, X has received a gift of ₹ 96,000 from a friend settled in UK.

Question 20

Income and expenditure account of a partnership firm of Chartered Accountants is as follows –

Particulars	Amount	Particulars	Amount
Expenses	8,80,000	Receipt from clients for consultations	6,00,000
Depreciation	3,20,000	Audit fees	7,20,000
Remuneration to partners	7,50,000	Excess of expenditure over income	6,80,000
Interest on capital to partners	50,000		
	20,00,000		20,00,000

Other information:

- Out of expenses of ₹ 880000, ₹ 172500 is not deductible u/s 36 and 37.
- Depreciation as per sec. 32 is ₹ 331000.
- Interest on capital to partners not deductible u/s 40(b) is ₹ 7000.

Compute the remuneration deductible and professional income.

Question 21

A firm of Chartered Accountants consisting of 3 partners earned a net surplus of ₹ 2,08,000 during the accounting year after charging interest on total capital amounting to ₹ 36,000 calculated @ 18% p.a. on the capital of partners but before charging remuneration to partners. You are required to calculate the taxable income of the firm and tax thereon after allowing the maximum allowable remuneration to partners under the provisions of the income tax Act, 1961.

Question 22

From the following profit & loss account of Ronie for the year. Compute his gross total income.

Particulars	Amount	Particulars	Amount
Opening stock	4,00,000	Sales	40,00,000
Purchases	30,00,000	Closing stock	4,80,000
Salaries	8,00,000	Rent from house Property	80,000
Rent, rates & taxes	1,20,000	Share of profit from partnership firm	9,000
Legal charges	40,000		
Miscellaneous expenses	20,000		
Provision for bad debts	30,000		
Provision for gratuity	20,000		
Provision for income tax	40,000		
Salary to Mrs. Ronie	36,000		
Depreciation	40,000		
Net profit	23,000		
	45,69,000		45,69,000

Additional information:

- Purchases include ₹.100000 paid in cash to cultivator for purchase of an agricultural produce.
- Purchases also include ₹ 100000 paid by way of compensation to a supplier as the assessee was unable to take the delivery of goods due to lack of storage space and finances.
- Opening stock was overvalued by 25% and closing stock was undervalued by 25%.
- Salary includes ₹ 15000 paid as customary bonus on the occasion of diwali over and above the bonus payable under the Payment of Bonus Act, 1965.
- Rent, rates & taxes include ₹ 10000 on account of disputed GST demand. The matter is decided against the assessee and he has paid the same on 8th July, 2023 ₹ 3000 on

account of municipal taxes for property let out. It also includes ₹ 5000 as customs penalty paid during the year.

6. An employee retired on 28-3-24. Gratuity payable to him was ₹ 20000. A provision was created for the same this year and it was paid on 31.3.2024.
7. Mrs. Ronie is a law graduate and actively working in the assessee's firm.
8. Actual bad debts amounted to ₹ 20,000.

Question 23

From the following profit and loss account of Vinay for the year, compute his total income

	₹		₹
Interest on capital	12,000	Gross Profit	5,10,000
Insurance	2,000	Brokerage	30,000
Bad debts	30,000	Bad debts recovered (earlier allowed as deduction)	15,000
Depreciation	34,000	Sundry receipts	18,000
Advance tax	25,000	Interest on debentures (Gross)	
General expenses	12,000	[TDS ₹ 4000]	40,000
Advertisement	5,000		
Salary (including salary to Vinay ₹ 20000)	85,000		
Interest on loan	8,000		
Net profit	4,00,000		
	6,13,000		6,13,000

Additional information:

- (a) The amount of depreciation allowable as per income-tax rules is ₹ 42000.
- (b) General expenses include ₹ 5000 given as contribution to a political party.
- (c) Vinay pays ₹ 5200 as premium on his own life insurance policy of ₹ 60000.
- (d) Loan was obtained for payment of income-tax.

Question 24

Mr. X, aged 75 years, has submitted his profit and loss account for the year ending 31.03.2024 as given below:

Particulars	₹	Particulars	₹
Opening Stock	13,50,000	Sales	105,00,000
Purchases	75,00,000	Gift from friend	1,200
Franchises	1,00,000	Bad debts recovered taxable u/s 41(4)	2,900

Advertisement	9,000	Rental income from House Property	1,40,000
Income Tax of previous year 2022-23	7,000	Income tax refund	700
Income tax (advance) company	1,200	Dividends from a foreign company	3,000
Addition to the office building	45,000	Closing stock	1,80,000
Investment in public provident fund	70,000		
Net Profit	17,45,600		
	108,27,800		108,27,800

- Opening and closing stocks are undervalued by 10%.
- Franchises were purchased on 01.07.2023 and were put to use on 02.10.2023.
- Advertisement expenditure relates to a neon sign board which was purchased and put to use on 01.08.2023.
- Office building has written down value of ₹ 56,00,000 as on 01.04.2023 and addition was made to the building by constructing additional room on the roof. Construction was completed on 01.11.2023 and it was put to use on the same date. The expenditure of ₹ 45,000 includes cost of wiring and switches of ₹ 4,500. No depreciation has been debited with regard to the building.
- Sale includes sale of ₹ 1,20,000 to the proprietor and the cost of these goods was ₹ 1,00,000 and market price ₹ 1,25,000.
- Bad debts recovered were allowed earlier u/s 36(1)(vii) in earlier previous year.

Mr. X has not opted for presumptive taxation of Income u/s 44AD.

Compute his Total Income for the Assessment Year 2024-25.

Question 25

Mr. X is an advocate in Delhi High Court. He keeps his books on cash basis. His receipts and payments account for the financial year 2023-24 is given below

Receipts	₹	Payments	₹
Balance b/d	44,000	Rent Paid for office	1,44,000
Consultancy fee	55,35,500	Office expenses	46,000
Remuneration from university as evaluator of LLB exams	7,000	Computer purchased and put to use on 01.04.2023	50,000
		New car purchased and put to use on 01.05.2023	3,00,000

Sale proceeds of residential house	5,00,000	Legal books purchased	30,000
Salary from law faculty for working as part time lecturer	45,000	Car expenses	42,000
Share of profit from partnership firm	5,200	Advance Income tax paid	22,000
		Electricity and water charges for the entire house	16,000
		Life insurance premium paid on own life (sum assured 50,000)	12,000
		Balance c/f	54,74,700
	61,36,700		61,36,700

Additional information:

1. On 31.03.2024 legal fees outstanding amounted to ₹ 22,000
2. Rent is payable @ ₹12,000 p.m.
3. 70% of the use of the car is for official purpose and 30% for personal purpose.
4. Legal books for ₹ 12,000 was purchased on 01.05.2023 and put to use on the same date and for ₹ 18,000 on 01.11.2023 and put to use on the same date.
5. Half of the house taken on rent is being used for residential purposes.
6. House was purchased on 01.07.2022 for 3,00,000

Compute the Gross Total Income of Mr. X for the Assessment Year 2024-25.

Question 26

Vivitha Bio-medicals Ltd. is engaged in the business of manufacture of bio-medical items. The following expenses were incurred in respect of activities connected with scientific research:

Year ended	Item	Amount (₹)
31.03.2021 (Incurred after 1.9.2020)	Land	10,00,000
31.03.2022	Building	25,00,000
31.03.2023	Plant and Machinery	5,00,000
31.03.2024	Raw materials	2,20,000
	Raw materials and salaries	1,80,000

The business was commenced on 01-09-2023.

In view of availability of better model of plant and machinery, the existing plant and machinery were sold for ₹ 8,00,000 on 1.03.2024.

Discuss the implications of the above for the assessment year 2024-25 along with brief computation of deduction permissible under section 35 assuming that necessary conditions have been fulfilled.

Question 27

Mr. Gupta is having a trading business and his Trading and Profit & Loss Account for the financial year 2023-24 is as under:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,00,000	By Sales	2,70,00,000
To Purchase	2,49,00,000	By Closing stock	50,000
To Gross profit	20,50,000		
Total	2,70,50,000	Total	2,70,50,000
Salary to employees (Including Contribution to PF)	5,00,000	By Gross Profit b/d	20,50,000
Donation to Prime Minister Relief Fund	1,00,000		
Provision for bad debts	50,000		
Bonus to employees	50,000		
Interest on bank loan	50,000		
Family			
Planning expenditure incurred on employees	20,000		
Depreciation	30,000		
Income-tax	1,00,000		
To Net profit	11,50,000		
Total	20,50,000	Total	20,50,000

Other information:

- (i) Depreciation allowable ₹ 40,000 as per Income-tax Rules, 1962.
- (ii) No deduction of tax at source on payment of interest on bank loan has been made.
- (iii) Out of salary, ₹ 25,000 pertains to his contributions to recognized provident fund which was deposited after the due date of filing return of income. Further, employees contribution of ₹ 25,000 was also deposited after the due date of filing return of income.

Calculate gross total income of Mr. Gupta.

Question 28

Following is the profit and loss account of Mr. Q for the year ended 31-03-2024:

Particulars	(₹)	Particulars	(₹)
Repairs on Building	1,81,000	By Gross Profit	6,01,000
Amount paid to IIT, Mumbai for an approved scientific research programme	1,00,000	By I.T. Refund	8,100
Interest	1,10,000	By Interest on Company Deposits	6,400
Travelling	1,30,550		
Net Profit	93,950		
	6,15,500		6,15,500

Following additional information is furnished:

- Repairs on building includes ₹ 1,00,000 being cost of building a new room.
- Interest payments include ₹ 50,000 on which tax has not been deducted and it was deductible and penalty for contravention of Central Sales Tax Act of ₹ 24,000.

Compute the income chargeable under the head "Profits and gains of Business or Profession" of Mr. Q for the year ended 31-03-2024 **ignoring depreciation.**

Question 29

Following is the profit and loss account of Mr. A for the year ended 31.3.2024:

Particulars	₹	Particulars	₹
To Repairs on building	1,30,000	By Gross profit	6,01,000
To Advertisement	51,000	By Income Tax Refund	4,500
To Amount paid to Scientific Research Association approved u/s 35	1,00,000	By Interest from company deposits	6,400
To Interest	1,10,000	By Dividends from Indian company	3,600
To Traveling	1,30,000		
To Net Profit	94,500		
	6,15,500		6,15,500

Following additional information is furnished:

- (1) Repairs on building includes ₹ 95,000 being cost of raising a compound wall for the own business premises.
- (2) Interest payments include interest of ₹ 12,000 payable outside India to a non-resident Indian on which tax has not been deducted and penalty of ₹ 24,000 for contravention of Central Sales Tax Act.

Compute the income chargeable under the head 'Profits and gains of business or profession' of Mr. A for the year ended 31.3.2024 **ignoring depreciation.**

HOMEWORK SOLUTIONS

Answer 1

Computation of depreciation allowable for A.Y. 2024-25

Asset	Rate	Depreciation (₹)
Block 1 Furniture [See working note below]	10%	30,000
Block 1 Plant [Computer including computer software, Computer UPS, laptop, Printers and Books] [See working note below]	40%	34,500
Total depreciation allowable		64,500

Working Note:

Computation of depreciation

Block of Assets	₹
Block 1 : Furniture – [Rate of depreciation – 10%]	
Put to use for more than 180 days [₹ 3,00,000 @ 10%]	30,000
Block 2 : Plant [Rate of depreciation – 40%]	
(a) Computer including computer software (put to use for more than 180 days) [₹ 35,000 @ 40%]	14,000
(b) Computer UPS (put to use for less than 180 days) [₹ 8,500 @ 20%] [See note below]	1,700
(c) Computer Printer (put to use for more than 180 days) [₹ 12,500 @ 40%]	5,000
(d) Laptop (put to use for less than 180 days) [₹43,000 @ 20%] [See note below]	8,600
(e) Books (being annual publications or other than annual publications) (Put to use for more than 180 days) [₹ 13,000 @ 40%]	5,200
	34,500

Note - Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the P.Y. 2023 - 24 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.

Answer 2

Computation of depreciation allowable for the A.Y. 2024-25 in the hands of Mr. Gamma

Particulars		₹ in crore	
Total cost of plant and machinery		120.00	
Less: Used for Scientific Research (Note 1)		15.00	
		105.00	
Normal Depreciation at 15% on ₹ 105 crore			15.75
Additional Depreciation:			
Cost of plant and machinery		120.00	
Less: Second hand plant and machinery (Note 2)	20.00		
Less : Plant and machinery used for scientific research, the whole of the actual cost of which is allowable as deduction under section 35(1)(iv) read with section 35(2)(ia) (Note 2)	15.00	(35.00)	
		85.00	
Additional Depreciation at 20%			17.00
Depreciation allowable for A.Y. 2023-24			32.75

Notes:

- As per section 35(1)(iv), no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee's business, since deduction is allowable under section 35 in respect of such capital expenditure.
- As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged in, inter alia, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant. However, additional depreciation shall not be allowed in respect of, inter alia, -

- Any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person;
- Any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profit and gains of business or profession" of any previous year.

In view of the above provisions, additional depreciation cannot be claimed in respect of -

- Second hand plant and machinery.
- New plant and machinery purchased for scientific research relating to assessee's business in respect of which the whole of the capital expenditure can be claimed as deduction under section 35(1)(iv) read with section 35(2)(ia) & (iv).

Answer 3

Computation of profits and gains of business or profession for A.Y. 2024-25.

Particulars	₹
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)	25 Lakhs
Less: Deduction under section 35AD	
Capital expenditure incurred during the P.Y. 2022-23 (excluding the expenditure incurred on acquisition of land) = ₹ 200 lakh – ₹ 150 lakh	50 lakh
Capital expenditure incurred prior to 1.4.2022 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2023	50 lakh
Total deduction under section 35AD for A.Y. 2024-25	<u>(100 lakh)</u>
Loss from the specified business of new hotel in Madurai	(75 lakh)
Profit from the existing business of a running a hotel in Coimbatore	120 lakh
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A	45 lakh

Answer 4

Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source as per the provisions of Chapter XVII-B would attract disallowance under section 40(a)(ia).

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible under section 192 or any sum credited or paid by way of directors' remuneration in which tax is deductible under section 194J, would attract disallowance@30% under section 40(a)(ia). Whereas in case of salary, tax has to be deducted under section 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the P.Y. 2023-24, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed under section 40(a)(ia) while computing business income for A.Y. 2024-25 is as follows –

Particulars	Amount paid in ₹	Disallowance u/s 40(a)(ia)@30%
(1) Salary [tax is deductible under section 192]	12,00,000	3,60,000
(2) Directors' remuneration [tax is deductible under section 194J] without any threshold limit]	28,000	8,400
Disallowance under section 40 (a) (ia)		3,68,400

If the tax is deducted on directors' remuneration in the next year i.e., P.Y. 2024-25 at the time of payment and remitted to the Government, the amount of Rs. 8,400 would be allowed as deduction while computing the business income of A.Y. 2025-26.

Answer 5

Disallowance under section 40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

(i) The obligation to deduct tax at source from interest paid to a resident arises under section 194A in the case of an individual, whose total turnover in the immediately preceding previous year, i.e. P.Y. 2022-23 exceeds ₹ 100 lakhs. Thus, in present case, since the turnover of the assessee is less than ₹ 100 lakhs, he is not liable to deduct tax at source. Hence, disallowance under section 40(a)(ia) is not attracted in this case.

(ii) The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source under section 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed ₹ 100 lakhs in the immediately preceding previous year.

Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct at source under section 192 from salary payment. However, only 30% of the amount of salary paid without deduction of tax at source would be disallowed.

(iii) The obligation to deduct tax at source under section 194-H from commission paid in excess of ₹ 15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y. 2022-23 exceeds ₹ 100 lakhs. Thus, in present case, since the turnover of the assessee is than than ₹ 100 lakhs, he is not liable to deduct tax at source. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

Answer 6

Section 44AA(1) requires every person carrying on any profession, notified by the Board in the Official Gazette (in addition to the professions already specified therein), to maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of the Income-tax Act, 1961. As per Rule 6F, a person carrying on a notified profession shall be required to maintain specified books of accounts:

- (i) if his gross receipts in all the three years immediately preceding the relevant previous years has exceeded ₹ 1,50,000; or
- (ii) if it is a new profession which is setup in the relevant previous year, it is likely to exceed ₹ 1,50,000 in that previous year.

In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded ₹ 1,50,000 in financial year 2020-21 and 2021-22 the requirement under section 44AA to compulsorily maintain the prescribed books of account is not applicable to him.

Mr. Vinod, however, required to maintain such books of accounts as would enable the Assessing Officer to compute his total income.

Answer 7

- (i) Yes. Since his total turnover for the FY. 2023-24 is below ₹ 200 lakhs, he is eligible to opt for presumptive taxation scheme under section 44AD in respect of his retail trade business.
- (ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be ₹ 15,88,000, being 8% of ₹ 1,98,50,000.
- (iii) Mr. Praveen had declared profit for the previous year 2022-23 in accordance with the presumptive provisions and if he does not opt for presumptive provisions for any of the five consecutive assessment years i.e. A.Y. 2024-25 to A.Y. 2028-29, he would not be eligible to claim the benefit of presumptive taxation for five assessment years i.e., A.Y. 2025-26 to A.Y. 2029-30 subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumption provisions. Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.
- (iv) In case he opts for the presumptive taxation scheme under section 44AD, the due date would be 31st July, 2024.

In case he does not opt for presumptive taxation scheme, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2024.

Answer 8

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2024

Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
Opening written down value (as on 01.04.2023)	20	Nil
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2023	10	--
New car purchased on 1.12.2023	8	--
Computer purchased on 3.1.2024	--	4
Less: Assets sold / discarded /destroyed during the year	38	4
	Nil	Nil
Closing Written Down Value (as on 31.03.2024)	38	4

Computation of Depreciation for A.Y. 2024-25

	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
i.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	Normal Depreciation		
	- Opening WDV of plant and machinery (₹ 20 lacs x 15%)	3.00	--
	- New Machinery purchased on 1.9.2023 (₹ 10 lacs x 15%)	1.50	--
	(A)	4.50	--
	Additional Depreciation		
	New Machinery purchased on 1.9.2023 (₹ 10 lakhs x 20%)	2.00	--
	Balance additional depreciation in respect of new machinery purchased on 31.10.2022 and put to use for less than 180 days in the P.Y. 2022-23 (₹ 10 lakhs x 20% x 50%)	1.00	
	(B)	3.00	

II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any Normal Depreciation New car purchased on 1.12.2023 [₹ 8 lacs x 7.5% (i.e. 50% of 15%)]	----	0.60
	Computer purchased on 3.1.2024 [₹ 4 lacs x 20% (50% of 40%)]	----	0.80
	(C)	0.60	0.80
	Total Depreciation (A + B + C)	8.10	0.80

Notes:

- (1) As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005, by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant. However, additional depreciation shall not be allowed in respect of, inter alia, -
- (i) any officer appliances or road transport vehicles;
 - (ii) any machinery or plant installed in, inter alia, office premises.
- In view of the above provisions, additional depreciation cannot be claimed in respect of -
- (i) Car purchased on 1.12.2023 and
 - (ii) Computer purchased on 3.1.2024, installed in office.
- (2) As per third proviso to section 32(1)(ii), balance 50% of additional depreciation on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year shall be allowed in the immediately succeeding previous year.
- Hence, in this case, the balance 50% additional depreciation (i.e., ₹ 1 lakhs, being 10% of ₹ 10 lakhs) in respect of new machinery which had been purchased during the previous year 2022-23 and put to use for less than 180 days in that year can be claimed in P.Y. 2023-24 being immediately succeeding previous year.

Answer 9

Allowability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing profits and gains from business or profession

(i) Construction of school building in compliance with CSR activities

Under section 37(1), only expenditure not being in the nature of capital expenditure or personal expense and not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

However, any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37.

Accordingly, the amount of ₹ 5,60,000 incurred by Mr. Manav, towards construction of school building in compliance with CSR activities shall not be allowed as deduction under section 37.

(ii) Purchase of building for setting up and operating a warehousing facility for storage of food grains

Mr. Manav, would be eligible for investment-linked tax deduction under section 35AD @ 100% in respect of amount of ₹ 4,50,000 invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (P.Y. 2023-24, in this case).

Therefore, the deduction under section 35AD while computing business income of such specified business would be ₹ 4,50,000.

(iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted.

As per section 194A, Mr. Manav, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the previous year 2022 - 23 exceeds the monetary limit of ₹ 100 lacs.

Therefore, ₹ 15,000, being 30% of ₹ 50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. Manav for non-deduction of tax at source under section 194A on interest of ₹ 50,000 paid by it to Mr. X.

The balance ₹ 35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

(iv) **Commodities transaction tax of ₹ 20,000 paid on sale of bullion**

Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the previous year is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed under the head “Profits and gains of business or profession”.

Taking that income from this commodities transaction is included while computing the business income of Mr. Manav, the commodity transaction tax of ₹ 20,000 paid is allowable as deduction under section 36(1)(xvi).

Answer 10

- (i) **True:** Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.
- (ii) **True:** As per section 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding ₹ 10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of ECS through a bank account, then the payment to made shall be deemed to be the income of the subsequent year in which such payment has been made.
- (iii) **True:** According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/ profession whether or not the assessee has claimed the same while computing his total income.
- (iv) **True:** Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).
- (v) **False:** Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.

In this case, the assessee is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, the assessee will not be entitled to claim additional depreciation under section 32(1)(iia).

Answer 11

(i) Not allowable as deduction: As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:

- (1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund or;
- (2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.

Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.

Note: It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.

(ii) **Allowable as deduction:** As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds ₹ 10,000.

Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.

(iii) **Not allowable as deduction:** Income-tax of ₹ 20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC).

As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.

(iv) **Allowable as deduction:** Payment for fire insurance is allowable as deduction under section 36(1). Since payment by credit card is covered under Rule 6DD, which contains the exceptions to section 40A(3), disallowance under section 40A(3) is not attracted in this case.

(v) **Not allowable as deduction:** Disallowance under section 40(a)(iii) is attracted in respect of salary payment of ₹ 2,00,000 outside India by a company without deduction of tax at source.

(vi) **Allowable as deduction:** The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account is ₹ 35,000 in case of payment made for

plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 40A(3) is not attracted for payment of ₹ 30,000 made in cash to a transporter for carriage of goods.

Answer 12

- (a) **True:** In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque. Payment through a cheque crossed as “& Co.” will attract disallowance under section 40A(3).
- (b) **Partly True:** Section 40(a)(ia) provides that failure to deduct tax at source from rent or royalty payable to a resident, in accordance with the provisions of Chapter XVII-B, will result in disallowance of only 30% of such expenditure, where the resident payee has not paid the tax due on such income.

Answer 13

Computation of total income

Particulars	₹	₹
Net Profit		1,60,000
Less: Items credited to P & L A/c but not treated as income:		
(i) Customs duties recovered	22,000	
(ii) Gift from son	30,000	52,000
		1,08,000
Add:		
(1) Expenses disallowed: Outstanding liability for GST not paid before filing the return (30.9.2022) disallowed u/s 43B (24,000 - 14,000)	10,000	
(2) Outstanding liability of rent payable to railway not paid before filing the return i.e. (30.9.2022) disallowed u/s 43B	30,000	
(3) 30% Audit fee as tax has not been deducted at source (Section 40(a)(ia))	9,600	49,600
		1,57,600
Less: Capital expenditure incurred on scientific research related to business but not debited to P & L A/c		25,000
Business income being total income		1,32,600

- Bonus paid to staff is fully deductible.
- Capital expenditure on scientific research related to business is fully deductible u/s 35.

Answer 14

	₹	₹	₹
Net profit			3,10,000
Add : Inadmissible expenses:			
Acquisition of copy right (eligible for depreciation)		12,000	
GST (paid after due date of return)		7,000	
Staff salary		5,000	
Provision for income-tax		25,000	
Bonus not paid within due date		20,000	
Technical know-how (eligible for depreciation)		30,000	
Reserve for bad & doubtful debt		11,000	
Cost of extension of office building (eligible for depreciation)		36,000	
Patent right (eligible for depreciation)		40,000	1,86,000
			4,96,000
Less : Expenses allowed and receipt not chargeable			
Under this head:			
Depreciation			
(i) Building 10% of (8,00,000 + 36,000)	83,600		
(ii) Plant and machinery 15% of 2,80,000	42,000		
(iii) Intangible Assets (See Working Note)	16,750	1,42,350	
Bad debt not allowed earlier		5,000	
Custom duty		60,000	
			2,07,350
Business income			2,88,650

Working Note

	₹	₹
Depreciation on intangible assets		
Opening WDV		
Acquired and put to use for 180 days or more (12000 + 40,000)		Nil
Acquired and put to use for less than 180 days		52,000
		30,000
		82,000
Less: Depreciation 25% on ₹ 52,000	13,000	
12.5% on ₹ 30,000	3,750	(16,750)
WDV as on 1.4.2024		65,250

Answer 15

	₹
Net profit as per profit and loss account	5,45,000
Adjustments:	
Add: GST	(+) 50,000
Less: GST paid during 2023-24 (deductible on payment basis)	(-) 40,000
Less: GST paid on or before September 30, 2024 (i.e. due date of filing ROI)	(-) 4,000
Less: Bonus to employees	(-) 15,000
Less: Customs duty	(-) 25,000
Less: Leave salary	(-) 45,000
Net income	4,66,000

Note : Excise duty is paid on or before due date to file Return of income of F.Y. 2020-21. Hence it would have been already allowed as deduction in 22-23.

Answer 16

	₹	₹
Net profit as per profit and loss A/c		1,60,600
Add : Inadmissible expenses		
Expenses for arranging personal party	500	
contribution to a political party	1,000	
Advance tax	8,000	
Salary to X	45,000	
Interest on capital of X	23,000	
Interest on loan taken for payment of income tax	42,000	
Capital expenditure on advertisement	3,000	
Excess depreciation (i.e., ₹ 48,000 – ₹ 37,300)	10,700	1,33,200
		2,93,800
Add : Business Income Taxable but not recorded		4,500
		2,98,300
Less : Income credited to the P&L a/c but not chargeable under this head		
Interest on debentures	25,000	
Interest on deposit with a company	13,000	38,000
Less : Expenses allowed as deduction but not recorded		
Depreciation on signboard (10% of 3000)		300
Business income		2,60,000

Note : Bad debts is an allowable expenditure u/s 36(1)(vii) assuming it is revenue in nature and already written off.

Answer 17

	₹	₹
Net profit as per profit and loss a/c		5,82,600
Add : Inadmissible expenses		
Extension of building (capital expenditure is not allowed)	6,000	
Excessive depreciation (i.e. ₹ 23,000 – ₹ 19,000)	4,000	
Bonus not paid till due date of furnishing return of income (₹ 36,000 – ₹ 30,000)	6,000	
Contribution to unapproved gratuity fund	4,000	
Penalty for evading GST	10,000	30,000
Add Income Taxable but not recorded		
Less : Expenses allowed but not recorded		
Capital expenses on scientific research related to assessee's business (100% of 30,000)	30,000	
Less : Income not covered by Bus/Prof. or not chargeable		
Bad debts recovered (not allowed as deduction earlier)	7,100	
Gift received from father	43,000	(80,100)
Business income		5,32,500

Note

1. Outstanding bonus and GST paid up to July 31, 2024 (i.e. the due date of submission of return of income) is deductible. Amount paid after this date is deductible in the year of payment.
2. Pension paid to the widow of a former employee is deductible u/s 37(1)
3. Interest for non-payment of GST is deductible u/s 37(1) as it is compensatory in nature.
4. Contribution to approved scientific research association is entitled for deduction u/s 35(1)(ii) at 100%.

Answer 18

	₹	₹
Net profit as per profit and loss a/c		11,02,300
Add : Income Taxable but not recorded		
GST refund (it is taxable u/s 41(1) even if the matter is still pending)		3,000

Add : Inadmissible expenditure		
Expenses on issue of shares (1/5 of ₹ 18,000 is deductible u/s 35D & remaining 4/5 is disallowed in current year but will be allowed in next four year) [₹ 18,000 × 4/5]	14,400	
Capital expenditure on family planning (1/5 of ₹ 2,500 is deductible u/s 36(1)(ix) & remaining 4/5 is disallowed in current year but will be allowed in next four year) [₹ 2,500 × 4/5]	2,000	
Reserve for future losses Section 37	20,000	
Reserve for of advance income tax Sec 40(a)(ii)	13,000	
Car expenses (1/4 of ₹ 9,000 as car is used partly for personal purpose) Sec. 38	2,250	
Depreciation on machinery	2,000	
Depreciation on car (1/4 of ₹ 3,000 as car is used partly or personal purpose) Sec. 38	750	
Payment of printing bill to relative. Sec. 40A(2)	4,700	
Salary paid in cash. Sec. 40A(3)	21,000	
Mediclaime insurance premium paid in cash. Sec 36(1)(ib)	6,000	
Dividend tax Sec 40(a)(ii)	700	
Income-tax Sec 40(a)(ii)	500	87,300
Balance		11,92,600
Less : Expenses allowed but not recorded		(3,00,000)
Compensation under the voluntary retirement scheme (1/5 of ₹ 15,00,000 is deductible in 5 years u/s 35DDA)		8,92,600
Less : Income taxable under other heads		
Interest on bank deposits	17,000	
Capital gains on sale of short-term investment	3,000	(20,000)
Business income		8,72,600

Notes

1. The company cannot claim any deduction u/s 80C.
2. It has been held that letting out of residential flats to its employees is subservient and incidental to the main business of the company. Therefore, rent is not taxable under the head “Income form house property & the same is treated as Business Income.
3. Amount deposited with Maruti Udyog Ltd. is not deductible.
 ↓
 depreciation on this?
 ↓
 or assumed that depreciation on this is already included in 3000 depn as considered above?

Answer 19

Net profit as per profit and loss a/c		8,50,250
Add : Inadmissible expenses		
Household expenses	20,000	
Income tax	36,100	
Interest on own capital	84,000	
Reserve for bad debts	3,400	
Excessive depreciation on furniture (i.e., ₹ 18,000 – ₹ 17,200)	800	1,44,300
Add : Income taxable but not recorded		
Under Valuation of closing stock (1/9 of ₹ 2,10,000)		23,333
Less : Expenses allowed but not recorded		
Under Valuation of opening stock (1/9 of ₹ 1,04,000)		(11,556)
Less : Income not chargeable or not covered by PGBP		
Notional profit on goods withdrawal by X (i.e., ₹ 41,250 – ₹ 27850)		(13,400)
Business income		9,92,927

Answer 20

Computation of deductible remuneration

Particulars	Details	Amount
Net loss as per profit and loss account		(680000)
Add: Expenditure disallowed but debited in P/L Account		
Remuneration to working partner	750000	
Depreciation	320000	
Expenses (being not deductible)	172500	
Interest on capital to partners	7000	1249500
Less: Expenditure allowed but not debited in P/L Account		569500
Depreciation		(331000)
Book profit		238500
Remuneration to partner (being minimum of the following)		
Actual remuneration to partner	750000	
₹ 150000 or 90% of book profit, whichever is higher	214650	(214650)
Professional income of firm		23850

Answer 21

Computation of taxable profits and tax liability

Particulars	Amount
Net profit as per books of accounts	208000
Add: interest to partner allowed upto 12% u/s 40(b) [36000*(6/18)]	12000
Book Profit	220000
Less: Remuneration to partner [Maximum to the extent of 90% of book profit or ₹ 150000, whichever is higher]	
(198000)	
Profit & gains of business or profession	22000
Tax on above @ effective rate 31.2% rounded off u/s 288B)	6860

Answer 22

Computation of Gross Total Income

Particulars	₹	₹
Income From House Property : GAV	80000	
Less : Taxes paid by owner to Local authority	(3000)	
Net Annual Value	77000	
Sec. 24(a) 30 % Std. Deduction	(23100)	
(A) Income from House Property		53,900
Profits and gains from Bus./Prof.		
N.P. as per P/L. account		23000
Add : Expenses disallowed		
37(1) : Municipal taxes on LOP	3000	
37(1) : Customs Penalty	5000	
36(1)(vii) : Provision for Bad Debts	10000	
Opening Stock (400000*25/125)	80000	
40(a)(ii) : Provision for income tax	40000	138000
Add : Income taxable but not recorded		
Closing stock (480000/75%*25%)		160000
Less : Income not covered by PGBP		
Rent from House Property	80000	
Share of profit from partnership firm exempt u/s 10(2A)	9000	(89000)
(B) Profits & Gains from Bus/Prof.		232000
(C) Income from Other sources		0
Gross Total Income (A + B + C)		285900

Notes:

- As per Rule 6DD, payment in cash exceeding ₹ 10000 made to cultivator for purchase of agricultural produce would not be disallowed.
- Compensation to supplier is business expenditure and is revenue in nature. Hence it is an allowable expense u/s 37(1)
- Deduction of bonus expenses is allowed u/s 36(1)(ii) and is not subject to restrictions under Payment of Bonus Act, 1965.

- d) As per section 43B, as disputed GST is paid on or before due date to file return of income, it is an allowable expense.
- e) Provision for gratuity is an allowable expense. The same is not disallowed as per provisions of Section 40A(7).
- f) As Mrs. Ronie is a law graduate, salary of ₹36000 seems fair and reasonable.

Answer 23

Computation of gross total income of Vinay

Particulars	Amount	Amount
Profits and gains of business or profession		400000
Add: Expenditure disallowed		
Interest on capital	12000	
Income-tax paid	25000	
Salary to Vinay	20000	
Donation to Political Party	5000	
Interest on loan as loan was taken for payment of income tax	8000	70000
Add : Income Taxable but not recorded		
Less: Expenditure allowed but not recorded		
Depreciation (Shortfall)	8000	
Less: Income taxable under other head		
Interest on debentures	40000	48000
Profit & Gains of Business or Profession		422000
Add: Income from other Sources		
Interest on debentures		40000
Gross Total Income		462000
Less: Deductions		
U/s 80C [LIP Paid]	5200	
U/s 80GGC [Donation to Political Party]	5000	10200
Total Income		451800

Answer 24

Computation of Total Income

Income from House Property	98,000
PGBP	10,94,750
IFOS	3,000
Gross Total Income	11,95,750
Less: Deduction u/s 80C	(70,000)
Net taxable Income	11,25,750

Computation of Income from House Property

Gross Annual Value	1,40,000
Less: Municipal taxes	Nil
Net Annual Value	1,40,000
Less: Deduction u/s 24	
Standard deduction(30%)	(42,000)
Interest on capital borrowed	Nil
Income from House Property	98,000

Computation of PGBP

Net Profit as per profit & loss account	17,45,600
Add:	
1. Franchises, being capital expenditure	1,00,000
2. Advertisement, being capital expenditure	9,000
3. Income tax (income tax is not allowed as per sec 40(a))	8,200
4 Addition to office building, being capital expenditure	45,000
5. Investment in public provident fund	70,000
6. Closing stock undervalued by 10% (1,80,000 × 10/90)	20,000
	19,97,800
Less:	
Opening stock undervalued by 10% (13,50,000 × 10/90)	(1,50,000)
Depreciation	(5,88,150)
Gift from friend	(1,200)
Rental income from House Property	(1,40,000)
Income tax refund	(700)
Dividends from a foreign company	(3,000)
Sale to the proprietor should be at cost price	(20,000)
PGBP	10,94,750

Depreciation

(i) Franchise (1,00,000 × 25%)	25,000
(ii) Furniture / fixtures (10%)	
- Neon sign board (9,000 × 10%)	900
- Wiring in bldg (4,500 × 5%)	225
(iii) Office Building	
Opening 56,00,000 × 10%	5,60,000
Addition 40,500 × 5%	2025
Total Depreciation	5,88,150

Answer 25

Computation of Gross Total Income

Income from Salary	Nil
PGBP	53,20,200
CG (STCG)	2,00,000
IFOS	7,000
Gross Total Income	55,27,200

Computation of Income from Salary

Gross Salary	45,000
Less: Standard deduction u/s 16(ia)	45,000
Income from Salary	Nil
Computation of PGBP	
Consultancy fee	55,35,500
Less:	
Rent (50%)	(72,000)
Office expenses	(46,000)
Depreciation on Car	(31,500)
Depreciation on Computer	(20,000)
Depreciation on legal books	(8,400)
Car expenses {70% × 42,000}	(29,400)
Electricity and water charges (50%)	(8,000)
PGBP	53,20,200

Computation of IFOS

Share of profit from partnership firm [exempt u/s 10(2A)]	Nil
Payment from university as an evaluator	7,000
IFOS	7,000

Depreciation

- (i) Depreciation on car = $(3,00,000 \times 15\% \times 70\%) = 31,500$
(ii) Depreciation on computer = $50,000 \times 40\% = 20,000$
(iii) Depreciation on books = $(12,000 \times 40\%) + (18,000 \times 20\%) = 8,400$

Answer 26

1. As per section 35(2AB), where a company engaged in, inter alia, the business of biotechnology incurs any expenditure on scientific research during the current year, it is eligible for claiming deduction of a sum equal to 100% of the eligible expenditure. The eligible expenditure and quantum of deduction will be:
- (a) Current year capital expenditure (except expenditure in the nature of cost of any land or building) or revenue expenditure incurred for scientific research under section 35(2AB).
- (b) Any expenditure incurred during earlier 3 years immediately preceding the date of commencement of business on payment of salary or purchase of materials, or capital expenditure incurred other than expenditure on acquisition of land [actual expenditure qualifies for deduction under section 35(1)].

The deduction available under section 35 for scientific research will, therefore, be:

Particulars	₹
(a) Land	Nil
(b) Building	25,00,000
(c) Revenue expenses of last 3 years	2,20,000
(d) Capital expenditure of last 3 years: Plant and machinery	5,00,000
Expenditure allowable under section 35(1)	32,20,000
Current year revenue expenditure ₹ 1,80,000 u/s 35(2AB)	1,80,000
Total deduction under section 35	34,00,000

2. Section 41(3) provides that where a capital asset used for scientific research is sold, without having been used for other purposes, the lower of sale proceeds or the

total amount of deduction earlier allowed under section 35 will be considered as income from business of the previous year in which the sale took place.

Therefore, the income chargeable to tax under section 41(3) would be lower of the following:

- (1) Sale proceeds i.e., ₹ 8,00,000
 - (2) Total amount of deduction earlier allowed under section 35 i.e., ₹ 5,00,000
- ₹ 5,00,000 will be deemed to be the income chargeable to tax under section 41(3).

The difference between sale proceeds and business income under section 41(3) will be treated as short-term capital gain.

Sale proceeds of plant and machinery	8,00,000
Less: Business Income as per section 41(3)	<u>(5,00,000)</u>
Short-term capital gain taxable u/s 45	<u>3,00,000</u>

Answer 27

Computation of Gross Total Income of Mr. Gupta

Particulars	₹	₹
Income from Business or profession		
Net profit as per Profit and Loss Account		11,50,000
Add : Expenses not deductible		
Donation to Prime Minister Relief Fund (Refer Note 1)	1,00,000	
Provision for bad debts (Refer Note 2)	50,000	
Family planning expenditure incurred on employees (Refer Note 3)	20,000	
Depreciation as per Profit and Loss Account	30,000	
Income-tax (Refer Note 4)	1,00,000	
Employer's contribution to recognized provident fund (Note 5)	25,000	3,25,000
		14,75,000
Less : Expense allowed		
Depreciation as per Income-tax Rules, 1962		(40,000)
		14,35,000
Add : Employee's contribution included in income as per Section 2(24)(x) (Refer Note 6)		25,000
Business Income / Gross Total Income		14,60,000

Notes:

- (1) Donation to Prime Minister Relief Fund is not allowed as deduction from the business income. It is allowed as deduction under section 80G from the gross total income.
- (2) Provisions for bad debts is allowable as deduction under section 36(1)(viiia) (subject to the limits specified therein) only in case of banks, public financial institutions, State Financial Corporation and State Industrial Investment Corporation. Therefore, it is not allowable as deduction in the case of Mr. Gupta.
- (3) Expenditure on family planning is allowed as deduction under section 36(1)(ix) only to a company assessee. Therefore, such expenditure is not allowable as deduction in the hands of Mr. Gupta.
- (4) Income-tax paid is not allowed as deduction as per the provisions of section 40(a)(ii).
- (5) Since, Mr. Gupta's contribution (by the employer) to recognized provident fund is deposited after the due date of filing return of income, the same is disallowed as per provisions of section 43B.
- (6) Employee's contribution is includible in the income of the employer by virtue of Section 2(24)(x). The deduction for the same is not provided for as it was deposited after the due date.
- (7) TDS provisions under section 194A are not attracted in respect of payment of interest on bank loan. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

Answer 28

Computation of income under the head "Profits and gains of business or profession" of Mr. Q for the A.Y. 2023-24.

	₹	₹
Net profit as per profit and loss account		93,950
Add: Expenses not allowable		
(i) Expenses on building a new room – Capital expenditure, hence not allowable as per section 37(1).	1,00,000	
(ii) Interest payable on which tax has not been deducted at source [disallowed under section 40(a)] [See Note 1]	15,000	
(iii) Penalty for contravention of Central Sales Tax Act [Penalty paid for violation or infringement of any law is not allowable as deduction under section 37(1)]	24,000	
		1,39,000
		2,32,950

Less: Income not forming part of business income		
Interest from company deposits (chargeable under the head “Income from other sources”)(See Note 2 below)	6,400	
Income-tax refund (not an income chargeable to tax)	8,100	(14,500)
Profit and gains of business or profession		2,18,450

Note :

- Section 40(a)(ia) provides for disallowance of 30% of any sum paid, on which tax is deductible under Chapter XVII-B, but the same has not been deducted. Hence, ₹ 15,000 being 30% of ₹ 50,000 has to be added back while computing business income.
- Interest on company deposits may also be treated as business income presuming that the interest has been earned by Mr. Q out of available temporary surplus funds which are not immediately required for his business purposes but nevertheless meant only for Mr. Q’s business activities. In such a case, income under the head “Profit and gains of business or profession” would be ₹ 2,24,850.

Answer 29

Profits and gains of business or profession of Mr. A for the year ended 31.3.2024

Particulars	₹	₹
Net profit as per profit and loss account		94,500
Add: Expenses not allowable		
(i) Expenses on raising compound wall – capital expenditure, hence disallowed	95,000	
(ii) Interest payable outside India to a non-resident, as tax has not been deducted at source [Section 40(a)(i)]	12,000	
(iii) Penalty for contravention of CST Act [Penalty paid for violation or infringement of any law is not allowable as deduction under section 37(1)]	24,000	1,31,000
Less: Income not forming part of business income		2,25,500
Interest from company deposits taxable in I.F.O.S.	6,400	
Dividend from Indian company taxable in I.F.O.S.	3,600	
Income tax Refund not taxable	4,500	(14,500)
Profit and gains of business or profession		2,11,000

AGRICULTURE INCOME

Introduction:

Section 10(1) exempts agricultural income from tax and also provides for its exclusion in computing the total income of the assessee. The reason of exemption of agricultural income from Central taxation is that the Constitution gives exclusive power to make laws with respect to taxes on agricultural income to the State Legislatures. From the assessment year 1974-75, agriculture income is, however taken into account to determine tax on non-agricultural income in certain cases. This Chapter explains the meaning of agricultural Income and mode of aggregation of agricultural income with non-agricultural income to determine tax incidence on the latter.

What is the scheme of partial integration of non-agricultural income with agricultural income.

The scheme of partial integration of non-agricultural income with agricultural income is applicable if the following conditions are satisfied-

Condition 1 – The taxpayer is an person liable to pay tax as per slab rates.

Condition 2 – Agricultural income of the taxpayer exceeds Rs 5,000

Condition 3 – The taxpayer non-agricultural income exceeding the basic exemption limit

Computation of tax in cases covered by the scheme

Step 1: Add non-agricultural income with net agricultural income. Compute tax on the aggregate amount.

Step 2: Add net agricultural income and the maximum exemption limit available to the assessee (i.e., ₹ 2,50,000 / ₹ 3,00,000/ ₹ 5,00,000). Compute tax on the aggregate amount.

Step 3: Deduct the amount of income tax calculated in step 2 from the income tax calculated in step 1 i.e., Step 1 – Step 2.

Step 4: The sum so arrived at shall be increased by surcharge, if applicable. It would be reduced by the rebate if any available u/s 87A.

Step 5: Thereafter, it would be increased by health and education cess @ 4%.

Definition of agricultural income [Section 2(1A)]: This definition is very wide and covers the income of not only the cultivators but also the land holders who might have rented out the lands. Agricultural income may be received in cash or in kind.

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

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

Now let us take a critical look at the following aspects:

- (1) **Land has to be situated in India** - If agricultural lands are situated in a foreign State, the entire income would be taxable.
- (2) **“Agriculture” and “agricultural purposes”** - These terms have not been defined in the Act. However, cultivation of a field involving expenditure of human skill and labour on the land can be broadly termed as agriculture.
 - (a) “Agriculture” means tilling of the land, sowing of the seeds and similar operations. These are basic operations and require the expenditure of human skill and labour on land itself. Those operations which the agriculturists have to resort to and which are absolutely necessary for the purpose of effectively raising produce from the land are the basic operations.
 - (b) Operations to be performed after the produce sprouts from the land (e.g., weeding, digging etc.) are subsequent operations. These subsequent operations would be agricultural operations only when taken in conjunction with and as a continuation of the basic operations. Simply performing these subsequent operations without raising such products is not characterized as agriculture.
 - (c) “Agriculture” comprises within its scope the basic as well as the subsidiary operations regardless of the nature of the produce raised on the land. These produce may be grain, fruits or vegetables necessary for sustenance of human beings including plantation and groves or grass or pasture for consumption of beasts or articles of luxury such as betel, coffee, tea, spices, tobacco or commercial crops like cotton flax, jute hemp and indigo. The term comprises of products of land having some utility either for consumption or for trade and commerce and would include forest products such as sal, tendu leaves etc.

(d) However, the term 'agriculture' cannot be extended to all activities which have some distant relation to land like dairy farming, breeding and rearing of live stock, butter and cheese making and poultry farming. This aspect is discussed in detail later on.

(3) **Process ordinarily employed** - The process to which the agricultural produce is subject should be a process which is ordinarily employed by a cultivator. It may be manual or mechanical. However, it must be employed to render the produce fit to be taken to the market. For example, before making rice fit to be taken to the market we have to remove the basic grain from the hay, we have to remove the chaff from the grain, we have to properly filter them, we have to remove stones etc. and we have to pack the grain in gunny bags. In that condition alone the rice can be taken to the market and sold. This process of making the rice ready for the market may involve manual operations or mechanical operations. All these operations constitute the process ordinarily employed to make the product fit for the market. The produce must retain its original character in spite of the processing unless there is no market for selling it in that condition.

(4) **Income from farm building** - Income from any farm building which satisfies the following conditions would be agricultural income and would consequently be exempt from tax. Income derived from any such building arising from any other use (other than those discussed below) shall not be agricultural income.

(a) The building should be on or in the immediate vicinity of the agricultural land;

(b) It should be owned and occupied by the receiver of the rent or revenue of any such land or occupied by the cultivator or the receiver of rent in kind of any land with respect to which land or the produce of which land the process discussed above is carried on;

(c) The receiver of the rent or revenue or the cultivator or the receiver of rent in kind should, by reason of his connection with such land require it as a dwelling house or other out building.

In addition to the above three conditions any one of the following two conditions should also be satisfied:

(i) The land should either be assessed to land revenue in India or be subject to a local rate assessed and collected by the officers of the Government as such or;

(ii) Where the land is not so assessed to land revenue in India or is not subject to local rate:-

- (a) It should not be situated in any area as comprised within the jurisdiction of a municipality or a cantonment board and which has a population not less than 10,000.
- (b) It should not be situated in any area within such distance, measured aerially, in relation to the range of population according to the last preceding census as shown hereunder –

	Shortest aerial distance from the local limits of a municipality or cantonment board referred to in item (a)	Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year.
(i)	2 kilometers	> 10,000 < 1,00,000
(ii)	6 kilometers	> 1,00,000 < 10,00,000
(iii)	8 kilometers	> 10,00,000

- (5) **Income from nursery** - In the past, there have been court rulings that only if a nursery is maintained by carrying out the basic operations on land and subsequent operations in continuation thereof, income from such nursery would be treated as agricultural income and would qualify for exemption under section 10(1). The Supreme Court has, in CIT v. Raja Benoy Kumar Sahas Roy (1957) 32 ITR 466, held that the basic operations must be performed before any income can be called agricultural income. The basic operations involve cultivation of the ground, in the sense of tilling of the land, sowing of the seeds, planting and other similar operations on the land. Such basic operations demand the expenditure of human labour and skill upon the land itself and further, they are directed to make the crop sprout from the land. Therefore, income derived from sale of plants grown directly in pots would not be treated as agricultural income.

However, the Madras High Court, in CIT v. Soundarya Nursery (2000) 241 ITR 530, observed that nursing activity involves carrying out of several operations on land before the saplings were transplanted in suitable containers including pots and thereafter kept in shade or green house for further operation and growth. Therefore, income arising from nursery should be considered as agricultural income.

Explanation 3 to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income, whether or not the basic operations were carried out on land. This Explanation ratifies the view taken by the Madras High Court in favour of the taxpayer.

Examples of Agricultural income:

For better understanding of the concept, certain examples of agricultural income and non-agricultural income are given below:

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.

Composite income

WHAT IS THE TAX TREATMENT OF INCOME WHICH IS PARTLY AGRICULTURAL AND PARTLY BUSINESS(Rule 7,7A,7B and 8)

For disintegrating a composite business income which is partly agricultural and partly non-agricultural, the following rules are applicable –

❖ For tea, coffee & latex:

INCOME	TAXABLE INCOME %	AGRICULTURE INCOME %	INCOME-TAX RULES
(1) Tea growing & manufacturing	40	60	8
(2) Centrifuged latex or cenex or Latex based crepes or block rubbers	35	65	7A
Centrifuge : Rapidly rotating machine for separating			
Latex : Milky fluid of rubber tree			

Crepe : Rinkle sheet rubber used for shoe soles			
(3) Coffee grown & cured	25	75	7B
(4) Coffee grown, cured, roasted and grounded with or without mixing	40	60	7B
Chicory & other flavouring ingredients.			
Chicory : Curly leaved plant used as salads, with or instead of coffee			

❖ **For any other case [Rule 7]**

For disintegrating a composite business income which is partly agricultural and partly non - agricultural, the market value of any agricultural produce, raised by the assessee or received by him as rent-in-kind and utilised as raw material in his business, is deducted. No further deduction is permissible in respect of any expenditure incurred by the assessee as a cultivator or receiver of rent in kind.

CLASSWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

- (a) For the previous year ending March 31, 2024, non-agricultural income of X is ₹ 90,000, whereas agricultural income is ₹ 5,70,000. Is he liable to pay income-tax?
- (b) For the assessment year 2024-25, net agricultural income of Mrs. X (47 years) is ₹ 3,40,000 and non-agricultural income is ₹ 2,80,000. Determine her tax liability.
- (c) For A.Y. 2024-25, the agricultural income of ABC Pvt. Ltd. is ₹ 7,60,000 and the non-agricultural income is ₹ 6,00,000/-. Calculate the tax payable assuming that the turnover of company in f.y. 21-22 is less than 400 CR.

Question 2

Discuss whether the following items of income constitute "Agricultural Income" for the purpose of the Income-tax Act.

- (a) Income derived from rubber plantation in Singapore.
- (b) Rent received from a tenant to whom land in India has been let out and who uses it for cultivating wheat.
- (c) Income derived from sale of timber of spontaneous growth on Indian soil.

Question 3

X Ltd. grows sugarcane to manufacture sugar. Data for 2023-24 is as follows :

	(₹ In lakh)
Cost of cultivation of sugarcane	6
Market value of sugarcane when sugarcane is transferred to factory	10
Other manufacturing cost	6
Sales turnover of sugar	25
Salary of managing director who looks after non-agricultural operations of the company.	3

Compute agriculture income and income from business.

Question 4

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 31.03.2024 are given below:

	₹
WDV of car as on 1.4.2023 (15% rate)	3,00,000
WDV of machinery as on 1.4.2023 (15% rate)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

The expenses incurred for car running and maintenance are ₹ 50,000. The machines & the car were used in coffee curing business operations only.

Compute the income arising from the above activities for the assessment year 2023-24.

Question 5

Mr. Kamal grows paddy and uses the same for the purpose of manufacturing of rice in his own Rice Mill. The cost of cultivation of 40% of paddy produce is ₹ 7,00,000 which is sold for ₹ 15,00,000; and the cost of cultivation of balance 60% of paddy is ₹ 12,00,000 and the market value of such paddy is ₹ 24,00,000. To manufacture the rice, he incurred ₹ 2,00,000 in the manufacturing process on the balance (60%) paddy.

The rice was sold for ₹ 30,00,000.

Compute the Business income and Agriculture Income of Mr. Kamal.

HOMEWORK PROBLEMS WITH SOLUTIONS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

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:

S. No.	Particulars	₹
(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 Yercaud, Tamil Nadu.	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 nurseery 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.

Answer

Computation of business income and agricultural income of Ms. Vivitha for the A.Y. 2024-25.

Sr. No.	Source of income	Gross	Business income		Agricultural income
		₹	%	₹	₹
(i)	Sale of centrifuged latex from rubber plants grown in India	3,00,000	35%	1,05,000	1,95,000
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000
(iii)	Sale of coffee grown, cured, roasted and grounded outside India. (See Note 1 below)	2,50,000	100%	2,50,000	

(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings and seedlings grown in nursery in India (See Note 2 below)	80,000		Nil	80,000
	Total			5,40,000	5,90,000

Notes:

- Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri Lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.
- Explanation 3 to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land.

CAPITAL GAINS

Introduction

Capital gain is an increase in the value of a capital asset (investment or real estate) that gives it a higher worth than the purchase price.

This gain is normally realised when the asset is transferred. Further, this gain may be short-term or long-term in nature (discussed later on in this chapter).

In this chapter we will learn about the method to calculate capital gains under various situations and their taxability after various exemptions granted u/s 54 to section 54GB.

Basis of Charge - [Section 45]

General Charge

Section 45(1) provides that, any **profit or gain** arising from **transfer** of a **capital asset** shall be chargeable to tax under the head 'Capital Gains' in the previous year **in which the transfer took place** unless such capital gain is not exempt u/s 54 to 54GB.



Hence, from the above provision it is clear that in order to charge any income (i.e. profit or gain) to tax under the head capital gains, following conditions must be satisfied:

- (1) There should be a **capital asset**;
- (2) Such capital asset should be **transferred**;

Specific Charge

Cases where the income (i.e. profit or gain) is charged to tax **specifically under the head 'Capital Gains' only**:

- (1) Profit or gain arising on receipt of insurance claim on damage or destruction of a capital asset - **[Section 45(1A)]**
- (2) Profit or gain arising on conversion of a capital asset into stock in trade - **[Section 45(2)]**
- (3) Profit or gain arising on transfer of beneficial interest in securities - **[Section 45(2A)]**

- (3) Profit or gain should arise on transfer of such capital asset; and
- (4) The capital gain is not exempt u/s 54 to 54GB.



If all the above conditions are satisfied, then the income (i.e. profit or gain) shall be charged to tax under the head 'Capital Gains' for the previous year in which the capital asset is transferred.

- (4) Profit or gain arising on transfer of a capital asset by a partner/member to the firm/AOP/BOI - [Section 45(3)]
- (5) Profit or gain arising on distribution of a capital asset by a firm/AOP/BOI to its partners/members on dissolution or otherwise - [Section 45(4)]
- (6) Profit or gain arising on receipt of compensation or enhanced compensation on compulsory acquisition of a capital asset under any law - [Section 45(5)]

Note:

Under this head; two terms are important to understand, one is 'capital asset' and another one is 'transfer' because, under this head, the charge is created only when there is a transfer of a capital asset by the assessee.

Capital Asset - [Section 2(14)]

- ✓ As per section 2(14), the term 'capital asset' is defined to include:
 - (a) property or asset of any kind, held by the assessee, whether or not connected with his business or profession;
(which means that the asset may be movable or immovable, tangible or intangible, fixed or circulating. Further, it may be used in the business or profession of the assessee or may also be used for personal purposes).
 - (b) any securities held by a foreign institutional investor (FII) which has invested in such securities in accordance with the SEBI regulations.
 - (c) Any unit linked insurance policy which is not exempt u/s 10(10D).

Note:

As per the explanation to section 2(14), the term 'property' includes and shall be deemed to have always included any rights in or in relation to an Indian company, including rights of management or control or any other rights whatsoever.

✓ However, the term capital asset **does not include:**

Stock-in-trade

Any **stock in trade** [other than the securities mentioned in sub-clause (b) above], consumable stores and raw materials held for the purpose of business or profession of the assessee.

Note:

This exception does not apply in case of securities mentioned in sub-clause (b) of section 2(14) held by FIIs. This means, even if the nature of the securities in the hands of the FII is stock in trade, the same would still be treated as a capital asset and the profit or gain on transfer of such securities shall be taxable as capital gains only and not as 'PGBP'.

Personal Effects

It means movable property (including wearing apparel & furniture) held for the personal use by the assessee or any member of his family dependent on him.

For example, personal motor car/automotive, television sets, air conditioners, computers, music system, mobile phones, furniture etc.

However, the term **personal effects does not include** following, even though they are movable and are held for personal use:

- jewellery;
- archeological collections;
- drawings;
- paintings;
- sculptures; and
- any work of art (i.e. art work).

Note:

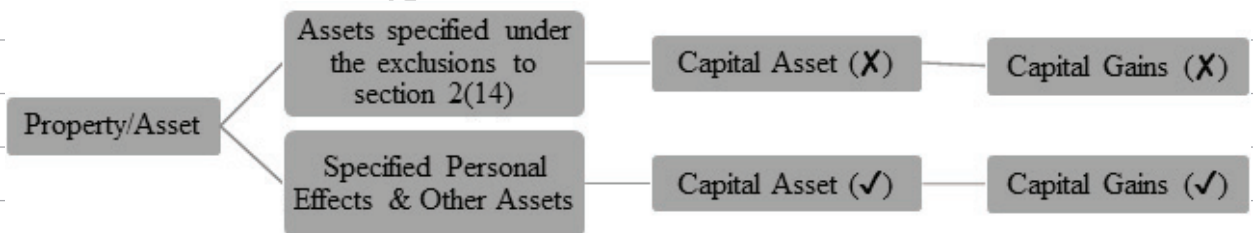
(1) The house property, in which the assessee lives, even though intimately used by the assessee for personal purposes, shall not be considered as personal effect as it is an immovable property.

	<p>(2) The term 'jewellery' includes:</p> <p>(a) ornaments made of gold, silver, platinum or any other precious metal or any alloy containing one or more of such precious metals, whether or not containing any precious or semi-precious stones & whether or not worked or sewn into any wearing apparel;</p> <p>(b) precious or semi-precious stones, whether or not set in any furniture, utensil or other article or worked or sewn into any wearing apparel.</p>
<p>Rural Agricultural Land</p>	<p>Agricultural land which is not situated in the jurisdiction of a municipality or cantonment board having a population of $\geq 10,000$ or within a distance of:</p> <p>(a) 2 kms. from the local limits of a municipality or a cantonment board having population of $> 10,000$ but $\leq 1,00,000$; or</p> <p>(b) 6 kms. from the local limits of a municipality or a cantonment board having population of $> 100,000$ but $\leq 10,00,000$; or</p> <p>(c) 8 kms. from the local limits of a municipality or a cantonment board having population of $> 10,00,000$.</p> <p>Note:</p> <p>(1) The above mentioned limits of 2 kms. or 6 kms. or 8 kms. has to be measured aerially (i.e. as per bird's eye view) & not in any other way.</p> <p>(2) Explanation to section 2(1A) clarifies that capital gains arising from transfer of any agricultural land situated in any non-rural area (as discussed above) shall not constitute agricultural income within the meaning of section 2(1A).</p> <p>In other words, the capital gains arising from the transfer of such urban agricultural land would not be treated as agricultural income for the purpose of exemption u/s 10(1). Therefore, the agricultural land situated in any non-rural area (i.e. urban area) shall be treated as a capital asset and capital gains would arise on transfer of such land.</p>

Gold Bonds	<ul style="list-style-type: none"> - 61/2 % Gold Bonds, 1977; or - 7% Gold Bonds, 1980; or - National Defence Gold Bonds, 1980 issued by the Central Government.
Special Bearer Bonds	Special Bearer Bonds, 1991 issued by the Central Government.
Gold Deposit Bonds & Certificates	<ul style="list-style-type: none"> - Gold Deposit Bonds issued under Gold Deposit Scheme, 1999; or - Deposit Certificates issued under the Gold Monetisation Scheme, 2015 notified by the Central Government.

Note:
Sovereign Gold Bonds (SGBs) issued by the RBI under the Sovereign Gold Bond Scheme, 2015 is treated as capital asset. Hence, capital gain would arise on transfer of such Sovereign Gold Bonds (SGBs). However, transfer of Sovereign Gold Bonds (SGBs) by way of redemption is exempt as per section 47(viic).

The above discussion can be summarised as follows:



Note:

There are two types of capital assets based on the period of holding, namely short-term capital asset (STCA) and long-term capital asset (LTCA).
Further, as per **section 2(42B)**, capital gain arising on transfer of a short-term capital asset (STCA) is treated as short-term capital gain (STCG) and as per **section 2(29B)**, capital gain arising on transfer of a long-term capital asset (LTCA) is treated as long-term capital gain (LTCG).

Short-term Capital Asset (STCA) - [Section 2(42A)]

- ✓ Short-term capital asset means a capital asset which is held by the assessee for a period of **not more than 36 months** immediately preceding the date of its transfer.
- ✓ However, following capital assets shall be treated as short-term capital assets if their period of holding is 12 months or less:
 - (a) Listed Securities other than units (for example, shares, bonds, debentures, government securities etc.)
 - (b) Units of Unit Trust of India (UTI)
 - (c) Units of Equity Oriented Mutual Funds (EOMF)
 - (d) Zero Coupon Bonds (ZCBs)
- ✓ Further, following capital assets shall be treated as short-term capital assets if their period of holding is **24 months or less**:
 - (a) Unlisted Shares (**Inserted by Finance Act, 2016**); and
 - (b) Any immovable property, being land or building or both (**Inserted by Finance Act, 2017**)

Long-term Capital Asset (LTCA) - [Section 2(29AA)]

A long-term capital asset means a capital asset which is not a short-term capital asset. Therefore, a capital asset held by an assessee **for a period of more than 12 months or 24 months or 36 months** (as the case may be) immediately preceding the date of its transfer is treated as a long-term capital asset.

Note:

There is a need to identify the type of capital asset (i.e. STCA or LTCA) and make distinction between short-term and long-term capital gains because short-term capital gain and long-term capital gain are **charged to tax at different rates**.

Also, the rules for set-off of short-term and long-term capital losses **are also different**.

Period of Holding

Period of holding is the period during which the capital asset remains the property of the assessee (i.e. the period during which the capital asset is held by the assessee).

Normally, the period of holding **starts from the date of acquisition of the capital asset; and ends on the date immediately preceding to the date of transfer of such capital asset**.

Further, in the following specific circumstances, the period of holding may be determined in a manner provided in explanation 1 to section 2(42A):

	Circumstances	Period of holding (POH)
(1)	Shares of a company in liquidation.	POH of such shares shall exclude period subsequent to the date of liquidation of the company.
(2)	If the capital asset becomes the property of the assessee by virtue of section 49(1).	POH of such capital asset in the hands of the assessee shall also include the period for which such capital asset was held by the previous owner.
(3)	Where inventory of business is converted into or treated as a capital asset by the assessee	Period from the date of conversion or treatment as a capital asset shall be considered
(4)	Where any financial asset is allotted without any payment and on the basis of holding of any other financial asset (bonus shares)	POH of such financial asset shall be reckoned from the date of allotment of such financial asset.
(5)	Where the share or any other security is subscribed on the basis of right to subscribe to any share or security by the assessee or by the person in whose favour such right is renounced by the assessee (right shares)	POH of such shares or other security shall be reckoned from the date of allotment of such share or security.
(6)	Where the right to subscribe to any share or security, which is renounced in favour of any other person.	POH of such right shall be the period beginning from the date of offer of such right by the company till the date of renouncement of such right.
(7)	Where share(s) in an amalgamated Indian company , becomes the property of an assessee in lieu of share(s) held in the amalgamating company in the course of amalgamation.	POH of share(s) in the amalgamated Indian company shall also include the period for which the share(s) were held in the amalgamating company by the assessee.
(8)	Where share(s) in a resulting Indian company becomes the property of an assessee in the course of demerger.	POH of share(s) in the resulting Indian company shall also include the period for which the share(s) were held in the demerged company by the assessee.
(9)	Where equity share of a company becomes the property of the assessee on conversion of preference shares .	POH of equity shares shall also include the period for which the preference shares were held by the assessee.

(10)	Where share(s) or debenture(s) of a company becomes the property of the assessee on conversion of bonds or debentures, debenture-stock or deposit certificates in any form.	POH of such share(s) or debenture(s) shall also include the period for which such bond, debenture, debenture-stock or deposit certificate, as the case may be, was held by the assessee prior to the conversion - [Rule 8AA]
(11)	Where any specified security or sweat equity shares allotted or transferred, directly or indirectly, by an employer free of cost or at concessional rate to his employees.	POH shall be reckoned from the date of allotment or transfer of such specified security or sweat equity shares.
(12)	Where any transfer takes place from gold to electronic gold receipt or vice versa.	POH to be computed from holding of original asset.

As discussed earlier, capital gain arises only when there is a transfer of capital asset. If the capital asset is not transferred or if there is any transaction which is not regarded as a transfer, there will not be any capital gain. Hence, it is important to know the meaning of the term 'transfer'.

Transfer - [Section 2(47)]

The term 'transfer' ordinarily means;

- change or transfer of ownership or possession of any property/asset;
- for a consideration;
- by one person to another.

However, as per section 2(47); the term 'transfer' is defined to include:

(a) Sale, Exchange or Relinquishment of a capital asset.

- Sale:

Sale is a transfer of ownership in exchange for a price paid or promised or part-paid and part-promised.

- Exchange:

In case of sale, the consideration for transfer is necessarily money, while in case of exchange, the consideration is another asset. Where two persons mutually transfers the ownership of one thing for the ownership of another, it results in exchange.

Like sale, exchange also requires two persons. There cannot be exchange with oneself. Hence, it is a bilateral transaction involving two parties each of whom owns an asset which constitute the subject matter of exchange.

Person liable to be assessed in case of exchange:

In this case, though there is only one transaction of exchange, the tax liability may arise on both the persons involved in the transaction of exchange.

Further, one of them may be liable to short-term capital gain tax and the other to long-term capital gain tax.

- **Relinquishment:**

Relinquishment means withdrawn from, abandoning or giving up anything. By relinquishment the owner ceases to own the asset concerned through some act on his part. In other words, the owner withdraws himself from the property and abandons his rights thereto. The property, however, continues to exist and becomes the property of someone else.

(b) Extinguishment of Right in the capital asset.

Extinguishment implies total destruction, annihilation, termination or extinction of a capital asset. But, destruction or extinction of a capital asset is not regarded as transfer except in case of section 45(1A).

In fact, there should be a destruction or extinction of 'rights' in the capital asset as it may be noticed that in respect of the expression 'relinquishment or exchange', the subject matter of transfer is an 'asset' and in case of 'extinguishment' it is 'rights'.

(c) Compulsory Acquisition of the capital asset under any law.

It is treated as transfer even though the assessee was not willing to transfer the asset.

(d) Conversion of capital asset into stock-in-trade.

Normally there can be no transfer if the ownership in an asset remains with the same person. However, as per the provisions of section 2(47), transfer takes place where the capital asset is converted by the owner thereof into, or is treated by him as stock-in-trade of a business carried on by him, even though the asset concerned does not change the ownership and is still with the assessee.

(e) Maturity or Redemption of a Zero Coupon Bond (ZCB).

- (f) **Any transaction involving the allowing of the possession of any immovable property to be taken or retained in part performance of a contract of the nature referred to in section 53A of the Transfer of Property Act, 1882.**

Normally, transfer of an immovable property is completed when the conveyance deed is executed and registered in the name of the transferee.

However, as per section 53A of the Transfer of Property Act, 1882 a situation may arise where under a contract for transfer of an immovable property, the purchaser has paid the price and has taken the possession of the property, but the conveyance is either not executed or if it is executed then, it is not registered.

In such case the transferor completely detaches himself from the property transferred and he is debarred from agitating his title to the property against the purchaser.

This would cover the cases where:

- possession of the property is has been handed over to the buyer;
- sale consideration has been paid to the seller;
- although the sale deed has not been executed in the favour of the buyer, certain other documents like power of attorney or agreement to sell or will etc. have been executed.

In such cases, the buyer will be deemed to be the owner of the property. And this act of giving possession of the immovable property in part performance of the contract is treated as 'transfer' as per the provisions of section 2(47) for the purpose of capital gains tax.

- (g) **Any transaction which has the effect of transferring, or enabling the enjoyment of any immovable property (whether by way of becoming a member of, or acquiring shares in a co-operative society, company or other association of persons (AOP) or by way of any arrangement or in any other manner whatsoever).**

A person may become member of any co-operative society, company or other association of person (AOP) building flats/houses.

When he pays an agreed amount, the society etc. hands over possession of the house to the person concerned. In such cases, no conveyance is registered in the name of the member. However, for the purpose of Income Tax Act, 1961, the above transaction is a transfer.

Flats in a co-operative society are generally registered in the name of the co-operative society. The members of the co-operative society in this case are deemed owners, although the legal owner still continues to be the co-operative society. Therefore, the definition of transfer states that if a deemed owner transfers the right to use & enjoy the flat by changing the membership of the co-operative society through a change in shareholding, it will be treated as a transfer, subject to tax under the head capital gains.

Examples of transfer:

- (1) Sale of property through **auction or temporary transfer** of the capital asset.
- (2) **Redemption of preference shares** by a company amounts to transfer in the hands of the shareholders and it would attract capital gains in the hands of such shareholders - **[Anarkali Sarabhai v/s CIT (SC)]**.

When preference shares are redeemed by the company, what the shareholder does in effect is, sell the shares to the company. On redemption, the shareholders have to abandon or surrender their rights in the shares in order to get the money in lieu thereof. Thus, **there is a relinquishment** which amounts to transfer resulting into capital gains.

- (3) Distribution of capital asset in case of liquidation of a company is not a transfer in the hands of the company but it is treated as a transfer in the hands of the shareholders - **[Section 46]**.
- (4) Slump Sale of a business undertaking or division - **[Section 50B]**.

Exempt Transfers - [Section 47]

Following transactions are not regarded as taxable transfers, hence in all the following cases, no capital gain would arise in the hands of the transferor:

- | | |
|-----|--|
| (1) | Transfer of a capital asset, by HUF to its members on partition - [Section 47(i)] |
| (2) | Transfer of a capital asset, by way of gift or will or inheritance or irrevocable trust - [Section 47(iii)] |

Note:

However, any transfer by way of gift or irrevocable trust of a capital asset being shares, debentures or warrants allotted by a company directly or indirectly to its employees under any employee stock option plan or scheme shall not be treated as exempt transfer.

(3)	Transfer of a capital asset, by a holding company to its wholly owned Indian subsidiary company - [Section 47(iv)]
(4)	Transfer of a capital asset, by a wholly owned subsidiary company to its Indian holding company - [Section 47(v)]
<p>Note (for point no. 4 & 5 above): No exemption would be available, if the capital asset is transferred as stock-in-trade. Hence, in such case, the transfer shall be taxable & would attract capital gains in the hands of the transferor company.</p>	
(5)	Transfer of capital assets, by an amalgamating company to the amalgamated Indian company, in a scheme of amalgamation - [Section 47(vi)]
(6)	Transfer of capital assets, by a demerged company to the resulting Indian company, in a scheme of demerger - [Section 47(vib)]
(7)	Transfer or issue of share(s) by the resulting Indian company, in a scheme of demerger, to the shareholders of the demerged company - [Section 47(vid)]
(8)	Transfer in a scheme of amalgamation, of share(s) by a shareholder, held by him in the amalgamating company, in consideration of the allotment of share(s) in an Indian amalgamated company - [Section 47(vii)]
(9)	Transfer of Rupee Denominated Bonds (RDBs) of an Indian company, effected outside India, by a non-resident to another non-resident - [Section 47(viiaa)]
(11)	Transfer by way of redemption, by an assessee being an Individual, of Sovereign Gold Bonds (SGBs) issued by the RBI under the Sovereign Gold Bond Scheme, 2015 - [Section 47(viic)]
<p>Note: Sovereign Gold Bonds Scheme, 2015 has been introduced by the Government of India to reduce the demand for physical gold and consequently, reduce the foreign exchange outflow due to import of gold. The two-fold benefit of this scheme are as follows:</p> <ul style="list-style-type: none"> - The gold bond would serve as a substitute for physical gold; and - The gold bond would provide security to the individual investor investing in gold for meeting their social obligation. <p>Salient features of SGBs are as follows:</p> <ul style="list-style-type: none"> - The assessee can buy Sovereign Gold Bonds (SGBs) from authorised banks and post offices after completing the KYC documentation. - The value of one bond will represent the price of gold per gram. The assessee can invest a minimum amount equal to one gram of gold and a maximum amount equal to 500 grams of gold. 	

- Further, SGBs can be converted into demat form. They will be listed on exchanges, which means that the assessee could sell them in the secondary market if he requires the money before maturity. The assessee can also take a loan against these bonds.

Tax implications of SGBs:

- The SGBs carry **interest** as well which **would be taxable** in the hands of the assessee as his income from 'Other Sources'.
- Transfer of SGBs by an individual assessee by way of redemption is exempt u/s 47(viic). However, if the SGBs are transferred before their maturity or in case such SGBs are transferred by an assessee other than an individual assessee, then, such transfer of SGBs shall attract capital gains. However, as per the **fourth proviso to Section 48, benefit of indexation shall be available** while computing on long term capital gains on transfer of SGBs.

- | | |
|------|---|
| (12) | Any transfer from gold to electronic gold receipt or from electronic gold receipt to gold (Section 47 (viid)) |
| (13) | Transfer of any capital asset being work of art, archeological, scientific or art collection, book, manuscript, painting, photograph or print, to the Government or University or National Museum, National Art Gallery, National Archives or any notified public museum or institution - [Section 47(ix)] |
| (14) | Any transfer by way of conversion of bonds or debentures, debenture-stock, or deposit certificates in any form, of a company into shares or debentures of that company - [Section 47(x)] |
| (15) | Any transfer by way of conversion of preference shares of a company into equity shares of that company - [Section 47(xb)] |
| (16) | Any transfer of capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government - [Section 47(xvi)] |

Note:

Reverse Mortgage Scheme (RMS):

- The RMS is for the benefit of **senior citizens**, who own a **residential house property** (RHP). In order to supplement their existing income, they can **mortgage** their RHP **with a scheduled bank or a housing finance company, in return for a lumpsum amount or for a regular monthly/quarterly/annual income.**

Exemption of income received in a transaction of reverse mortgage:

Section 10(43), provides that 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.

The loan amount can be used for renovation and extension of residential property, family's medical and emergency expenditure etc. amongst others. However, he cannot use the amount for speculative or trading purposes.

- The senior citizens can continue to live in the house and receive regular income, without any botheration of having to pay back the loan.
- The loan will be given up to, say, 60% of the value of residential house property mortgaged.
- Also, the bank/housing finance company would undertake a revaluation of the property once every 5 years.
- The RMS, now includes within its scope, disbursement of loan by an approved lending institution, in part or in full, to the annuity sourcing institution (i.e. LIC of India or any other insurer registered with the IRDA), for the purposes of periodic payments by way of annuity to the reverse mortgagor. This would be an additional mode of disbursement i.e. in addition to direct disbursements by the approved lending institution to the Reverse Mortgagor by way of periodic payments or lump sum payment in one or more tranches.

- Maximum Period of Reverse Mortgage Loan:

	Mode of disbursement	Maximum period of loan
(a)	Where the loan is disbursed directly to the Reverse Mortgagor	20 years from the date of signing the agreement by the reverse mortgagor and the approved lending institution.
(b)	Where the loan is disbursed, in part or in full, to the annuity sourcing institution for the purposes of periodic payments by way of annuity to the Reverse mortgagor	The residual life time of the borrower.

- 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.
- Therefore, section 47(xvi) clarifies that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government would not amount to a transfer for the purpose of capital gains.

Note:

Capital gains tax liability would be attracted only at the stage of alienation of the mortgaged property by the bank or housing finance company for the purposes of recovering the loan.

Year of Taxability of Capital Gain

Normally, capital gain arises in the previous year in which the transfer of the capital asset takes place even if the consideration for the transfer is received or realised later on in any subsequent year.

Note:

In the following exceptional cases, capital gain would be charged to tax in the previous year other than the previous year in which the transfer took place:

- (1) Profit or gain arising on receipt of insurance claim on damage or destruction of a capital asset - [Section 45(1A)]
- (2) Profit or gain arising on conversion of a capital asset into stock-in-trade of the business of the assessee - [Section 45(2)]
- (3) Profit or gain arising on receipt of compensation or enhanced compensation on compulsory acquisition of the capital asset under any law - [Section 45(5)]

Computation of Capital Gains - [Section 48]

We have already discussed that, capital gains are of two types:

- Short-term capital gain which arises on transfer of short-term capital asset; and
- Long-term capital gain which arises on transfer of long-term capital asset.

As per the provisions of section 48, short-term capital gain is the excess of full value of consideration over the aggregate of expenses on transfer, cost of acquisition; and cost of improvement.

Whereas, long-term capital gain is the excess of full value of consideration over the aggregate of expenses on transfer, indexed cost of acquisition; and indexed cost of improvement.

Further, from capital gains, computed as above, certain exemptions are available u/s 54 to 54GB.

The capital gain after claiming the said exemption(s) is known as taxable short-term capital gain (Taxable STCG) or taxable long-term capital gain (Taxable LTCG).

The manner of computing such long-term and short-term capital gains is given as under:

Computation of Short-term Capital Gains (STCG)

Particulars	Amount (Rs.)
Full Value of Consideration (FVC)	xx
Less: Expenses on Transfer	(xx)
Net Consideration (NC)	xx
Less: Cost of Acquisition (COA)	(xx)
Less: Cost of Improvement (COI)	(xx)
Gross short-term capital gain	xx
Less: Exemption u/s 54B/54D	(xx)
Taxable STCG	xx

Computation of Long-term Capital Gains (LTCG)

Particulars	Amount (Rs.)
Full Value of Consideration (FVC)	xx
Less: Expenses on Transfer	(xx)
Net Consideration (NC)	xx
Less: Indexed Cost of Acquisition (ICOA)	(xx)
Less: Indexed Cost of Improvement (ICOI)	(xx)
Gross long-term capital gain	xx
Less: Exemption u/s 54/54B/54D/54EC/54EE/54F	(xx)
Taxable LTCG	xx

Note:

As per the **fifth proviso** to Section 48, **no deduction** shall be allowed **in respect of securities transaction tax (STT)** leviable on purchase or sale of equity shares and units of equity-oriented funds in computation of capital gains.

In other words, such STT shall not form part of the actual cost in case it is incurred at the time of purchase of equity shares and units of equity-oriented funds. Also, it shall not be allowed as transfer expense in case it is incurred at the time of sale of equity shares and units of equity-oriented funds.

Full Value of Consideration (FVC)

Full value of consideration (FVC) is what the transferor receives or is entitled to receive as a consideration for transfer of the capital asset. The expression 'full value' means the whole price without any deduction whatsoever, whether received or receivable by the assessee in cash or in kind.

In other words, it is the whole amount of consideration received or receivable by the transferor in cash or in kind, in return of the capital asset transferred by him.

Note:

(1) Consideration received in instalments:

Even if the full value of consideration agreed upon is received in instalments in different years, the entire value of consideration has to be taken into account for computing the amount of capital gains which becomes taxable in the year of transfer.

(2) Consideration received in kind (i.e. in case of exchange):

In case of exchange, the full value of consideration shall be the fair market value (FMV) of the asset received in exchange.

(3) Deemed full value of consideration:

In certain special circumstances, instead of actual consideration, a notional value may be adopted as full value of consideration (FVC) for the purpose of computing capital gains. Such cases are discussed as below:

Section	Situation	Deemed FVC
45(1A)	Damage or destruction of any capital asset.	Value of money and/or FMV of the asset as on the date of receipt.
45(2)	Conversion of capital asset into or treatment thereof as stock-in-trade.	FMV of the asset as on the date of conversion or treatment.
45(3)	Introduction of any capital asset by a partner/member into firm/AOP/BOI as capital contribution (i.e. introduction of capital in kind by partner/member in firm/AOP/BOI).	Amount recorded in the books of accounts of the firm/AOP/BOI for such asset OR Amount Credited in the Capital A/c of such partner or member in the books of A/cs of the firm/AOP/BOI for bringing in such asset.

45(4)	Distribution of capital asset by a firm/ AOP/BOI on dissolution to partners/ members.	FMV as on the date of distribution.
45(5)	Compulsory Acquisition of a capital asset under any law	Amount of Initial Compensation
46(2)	Shareholder receiving money and assets from the liquidator on liquidation of the company.	Money Value (+) FMV of the asset received as on the date of distribution (-) Amount assessed as deemed dividend u/s 2(22)(c).
50C	Transfer of land or building or both.	Stamp Duty Value (SDV) assessed or assessable by the stamp duty valuation authority if the consideration declared by the assessee for transfer is less than such SDV. However, the provisions of section 50C shall be applicable only if the difference between the SDV and consideration is more than 10% of consideration
50CA	Transfer of capital asset being unlisted shares of any company.	FMV of such shares as on the date of transfer, if consideration declared by the assessee for transfer is less than such FMV.
50D	Transfer of a capital asset where consideration is not ascertainable or cannot be determined.	FMV of the capital asset as on the date of transfer.
Fourth Proviso to Section 48	Transfer by way of gift or irrevocable trust of a capital asset being shares, debentures or warrants allotted by a company directly or indirectly to its employees under any employee stock option plan or scheme.	FMV of such securities as on the date of such gift or transfer by way of irrevocable trust.

Expenses on Transfer

An expenditure which is **incurred wholly & exclusively in connection with the transfer** of the capital asset (whether incurred directly or indirectly), by the transferor is treated as transfer expense.

In other words, the expenditure which is **necessary to effect the transfer** of the capital asset or which is **incurred only when the transfer of capital asset is effectuated** is to be considered as transfer expense.

For Example:

Brokerage, Commission, Stamp duty, Registration Charges, Cost of Stamps, Legal Charges, Advertisement Expenses, etc. incurred by the transferor (assessee) are to be considered as transfer expenses in order to compute the amount of capital gains in his hands.

However, if such expenses are incurred by the transferee, then, the same shall be added to the cost of acquisition of the capital asset in his hands.

Cost of Acquisition (COA)

Price which the assessee has paid or the amount which he has incurred, for the acquisition of the capital asset. Further, any expense incurred for completing the title to the capital asset is also a part of the cost of acquisition. In simple words, it is the actual cost of the capital asset to the transferor incurred at the time when the capital asset was acquired by him.

Actual Cost = [Acquisition price (+) Expenses related to acquisition] of the capital asset

Note:

(1) Interest on money borrowed for acquiring a capital asset:

Interest on money borrowed for acquiring a capital asset (other than house property) would form part of cost of acquisition of such capital asset - [CIT v/s Mithlesh Kumari (Delhi HC)].

However, in case of capital asset being house property, such interest shall not be considered as a part of the cost of acquisition of the said house property as the same gets allowed u/s 24(b) while assessing the income from such house property under the head 'House Property'.

Also the deductions under chapter VI A, if claimed will not be allowed as cost of acquisition.

Interest on the amount borrowed for acquisition of a business asset:

Interest on the amount borrowed for acquisition of a business asset till the time such asset is not actually put to use, shall be treated as a part of cost of acquisition of such asset.

However, any interest on such borrowed amount after the asset is put to use shall be treated as a revenue expenditure which would be allowed as a deduction under the head 'PGBP' and hence, the same shall not form part of the cost of acquisition of the said asset.

Interest paid by the firm to its partner on capital contribution:

Any interest paid by the firm to its partner on capital contribution for the purchase of capital asset cannot be treated as part of cost of acquisition of such asset as the same is allowed to be deducted under the head 'PGBP' in the hands of such firm subject to the provisions of section 40(b).

(2) Sum paid for discharge of mortgage:

Where the property has been mortgaged by the previous owner during his life time and the assessee, after inheriting the same, has discharged the mortgage debt, the amount paid by him for the purpose of clearing-off the mortgage shall be considered as cost of acquisition (COA) in the hands of the assessee incurred for the previous year in which the mortgage debt has been discharged - [R.M. Arunachalam v/s CIT (SC)].

However, mortgage created by the assessee himself and then discharged by him, shall not be considered to be the cost of acquisition (COA) in the hands of the assessee as no interest was acquired by him in such property subsequent to the acquisition of such property - [V.S.M.R. Jagadishchandran (SC)].

Cost of Acquisition as per section 55(2):

Section	In case of a capital assets being goodwill or any other intangible asset of a business/profession; trade mark or brand name associated with any business; or any right (such as a right to manufacture, produce or process any article or thing; right to carry on any business or profession) tenancy rights; stage carriage permits; loom hours or any other right.		
55(2)(a)	If purchased: COA = Actual cost	If self-generated: COA = Nil	If acquired through any mode referred u/s 49(1): COA shall be cost to the previous owner if the previous owner paid for it. However, if it was self-generated by the previous owner, then the COA shall be taken as Nil.

Note:

(1) Further, the cost of improvement of **goodwill of a business or trade mark or brand name associated with a business or a right to manufacture, produce or process any article or thing** shall always be taken to be Nil.

However, in case of right to carry on any business or profession or tenancy rights or stage carriage permits or loom hours, cost of improvement is to be considered on actual basis and shall not be taken as Nil.

(2) **Option of taking FMV as on 01-04-2001 is not available in case of assets falling u/s 55(2)(a).**

Section 55(2)(aa)	(1) <u>Original Shares:</u> - acquired prior to 01-04-2001 - acquired on or after 01-04-2001	- <u>COA shall be higher of:</u> (a) Actual cost; or (b) FMV on 01-04-2001 - COA = Actual Cost
	(1) <u>Bonus Shares:</u> - allotted prior to 01-04-2001 - allotted on or after 01-04-2001	- COA = FMV on 01-04-2001 - COA = Nil
	(1) Right to acquire right shares	- COA = Nil
	(4) Right Shares acquired by the: - assessee - person in whose favour the assessee has renounced the rights entitlement	- COA = Actual Cost - COA = Cost of Right Shares (+) Cost of Right
Section 55(2)(ac)	(W.e.f. 01-04-2018): Long-term capital assets referred to in section 112A i.e.: (a) equity shares in a company on which STT is paid both at the time of purchase and transfer; or (b) unit of equity-oriented fund or unit of business trust on which STT is paid at the time of transfer.	

	Acquired before 01-02-2018: <u>COA shall be higher of the following:</u> (a) Actual cost of such asset; and (b) lower of: (i) FMV as on 31-01-2018; and (ii) Consideration received or accruing as a result of the transfer	Acquired on or after 01-02-2018: COA = Actual cost
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Section 55(2)(b)	If any capital asset was acquired prior to 01-04-2001.	<u>COA shall be higher of the following:</u> (a) Actual cost; or (b) FMV of the capital asset as on 01-04-2001. In relation to Capital asset being land or building or both, the F.M.V. as at 1.4.01 cannot exceed stamp duty value as at 1.4.01 if available on 1.4.01.
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Note:

The option u/s 55(2)(b) shall be available even though the assessee acquired the asset by way of any mode specified u/s 49(1), and the previous owner acquired such asset prior to 01-04-2001.

In such case, COA in the hands of the assessee shall be COA of the asset in the hands of the previous owner or FMV as on 01-04-2001, whichever is higher.

If the capital asset was acquired on or after 1st April, 2001, its actual cost shall be taken as the cost of acquisition.

Section 55(2)(b)	Where the capital asset became the property of the assessee on the distribution of the capital assets of a company on its liquidation and the assessee has been assessed to tax u/s 46.	FMV of the asset as on the date of distribution.
Section 55(3)	Where the cost for which the previous owner acquired the property cannot be ascertained.	FMV on the date on which the capital asset became the property of the previous owner.

Deemed Cost of Acquisition:

In certain special circumstances, instead of actual cost of acquisition, a notional value may be adopted as COA for the purpose of computing capital gains. Such cases are discussed as below:

Section	Situation	Deemed COA
49(1)	Where the capital asset became the property of the assessee: <ul style="list-style-type: none"> - on the distribution of the assets on total or partial partition of a HUF; - under a gift or will; - by way of succession, inheritance or devolution; - on any distribution of assets on the liquidation of a company; - under a transfer to a revocable or irrevocable trust; - under a transfer as referred to in clause (iv) or (v) or (vi) or (vib) of section 47; - by a mode referred to in section 64(2) i.e. on conversion of self-acquired property of a member of any HUF to the joint family property. 	Cost for which the previous owner of the property acquired it, as increased by the cost of any improvement of the assets incurred or borne by the previous owner.

Note:

(a) If the property which is acquired by the assessee by way of any transactions referred as above in section 49(1), then:

- COA to the previous owner shall be taken to be COA in the hands of the assessee. There is no other option in this regard.
- Any COI incurred by the previous owner shall be also considered by the assessee, provided the same is incurred on or after 01-04-2001.
- The benefit of indexation on COA is normally granted with effect from the date on which the assessee held the capital asset for the first time.

However, the benefit of indexation on COA in cases covered u/s 49(1) may also be granted with effect from the date on which the capital asset was first held by the previous owner.

This stand is taken on the basis of the decision of the **Hon'ble Bombay High Court in case of CIT v/s Manjulaben J. Shah** wherein it was held that the assessee (current owner) is deemed to have held the capital asset from the date on which such capital asset was held by the previous owner.

Accordingly, the benefit of indexation in such case, shall be granted with effect from the date on which the previous owner first became the owner of such capital asset.

- As per the explanation to section 49(1), the term 'previous owner' in relation to any capital asset owned by an assessee means the **last previous owner** of the capital asset who acquired it by any mode other than the modes specified u/s 49(1).

49(2)	Where the capital asset, being share(s) in an amalgamated Indian company which became the property of the assessee in consideration of a transfer referred to in section 47(vii).	COA of the share(s) in the amalgamating company.
49(2A)	Where the capital asset, being a share or debenture of a company, became the property of the assessee on conversion of debenture, debenture-stock, bond or deposit certificate.	That part of the cost of debenture, debenture-stock, bond or deposit certificate, on conversion of which, such share or debenture is acquired by the assessee.
49(2AA)	Capital asset being specified security or sweat equity shares referred to in section 17(2)(vi).	FMV which has been taken into account for the purposes of section 17(2)(vi) under the head 'Salaries'.
49(2AE)	Where the capital asset, being equity share(s) of a company, became the property of the assessee on conversion of preference share(s).	That part of the cost of the preference share(s) on conversion of which such share(s) are acquired by the assessee.
49(2C)	Where the capital asset, being share(s) in the resulting company, received by a shareholder in a scheme of demerger.	Refer Note Below

Note:		
COA of shares in the resulting company as per section 49(2C), shall be:		
COA of shares in the demerged company (before demerger)	(x)	Book Value of Net Assets transferred to the resulting company
Net Worth of the demerged company (before demerger)		
Where,		
Book Value of the Net Assets transferred to resulting company = [Book Value of the Assets transferred (-) Book Value of the Liabilities transferred]		
Net Worth of the Demerged Company (prior to demerger) = [Paid up share capital (+) Free Reserves & Surplus]		
49(2D)	Capital asset being original share(s) held by the shareholder in the demerged company (after the demerger has taken place).	COA of the original shares held by the shareholder in the demerged company as reduced by the amount arrived at u/s 49(2C).
49(2AG)	Capital asset being units in the segregated portfolio	Cost of acquisition of units in same proportion as net assets transferred to the segregated portfolio.
49(2AH)	Capital asset being original units (after segregation)	Cost of acquisition of original units will be original cost prior to Segregation (-) cost Segregated u/s 49(2AG)
49(4)	Where the capital gain arises from the transfer of a property, the value of which has been subjected to tax u/s 56(2)(x) in the hands of the assessee.	Value which has been taken into account for the purposes of taxability u/s 56(2)(x).
49(9)	Where the capital gain arises from the transfer of a capital asset which was used by the assessee as inventory earlier before its conversion into capital asset.	FMV of the inventory as on the date on such conversion determined in the prescribed manner.
49(10)	Where the capital gain arises from the transfer of "gold" to "electronic gold receipt" or vice versa	Cost of acquisition will be cost of original asset.
50	Capital gains arising on transfer of a depreciable asset forming part of block of asset.	Value of the Block i.e. Opening WDV of the Block (+) Additions.
50A	Capital gains arising on transfer of a depreciable assets of electricity companies.	WDV as adjusted i.e. actual cost at which such asset was acquired by such undertaking.
50B	Capital gains arising on slump sale.	Net Worth of the undertaking.

Indexed Cost of Acquisition (ICOA) - [Explanation (iii) to section 48]

The cost of acquisition ascertained as above shall be indexed if the capital asset is a long-term capital asset, by using the cost inflation index (CII) determined & prescribed by the Central Government on the basis of certain percentage of consumer price index considering the rise in prices due to inflation.

Indexed Cost of Acquisition (ICOA) means an amount which bears to the COA the same proportion as CII for the year in which the asset is transferred bears to the CII for the first year in which the asset was first held by the assessee or for the year beginning on **01-04-2001 (whichever is later)**.

Therefore, the Indexed Cost of Acquisition (ICOA) shall be:

Cost of Acquisition (COA) (×) CII of the year of transfer

CII of the year in which the asset was first held by the assessee **OR** CII of the P.Y.
2001-02 (whichever is later)

Note:

- (1) If the capital asset is acquired by the assessee by way of any of the modes as specified u/s 49(1), cost of acquisition of the previous owner is deemed to be the cost of acquisition in the hands of the assessee which needs to be indexed with effect from the date on which the assessee first held the capital asset.
- However, the **Hon'ble Bombay High Court in the case of CIT v/s Manjulaben J. Shah** has held that the assessee (current owner) is deemed to have held the capital asset from the date on which such capital asset was held by the previous owner.
- And accordingly, the benefit of indexation in such case, shall be granted with effect from the date on which the previous owner first became the owner of such capital asset.
- (2) Benefit of indexation shall not be available in following situations even though the capital asset transferred is a long-term capital asset:
- (a) Transfer of bonds or debentures (except capital indexed bonds & sovereign gold bonds).
 - (b) Transfer of undertaking or division in a transaction of slump sale.
 - (c) Transfer of depreciable assets forming part of block of assets.
 - (d) Transfer of long-term capital assets referred to in section 112A i.e. (a) equity shares in a company on which STT is paid both at the time of purchase and transfer; or (b) unit of equity-oriented fund or unit of business trust on which STT is paid at the time of transfer - **(w.e.f. 01-04-2018)**.

Cost of Improvement (COI)

As per the provisions of section 55(1);

- cost of improvement means; any **capital expenditure**;
- incurred **on or after 01-04-2001**;
- by the assessee or the previous owner;
- for the purpose of making any addition or alteration or extension or improvement etc. to the capital asset; **and**
- by reason of which the value of capital assets increases.

Note:

- (1) Any cost of improvement incurred **prior to 01-04-2001**, shall not be taken into consideration while computing capital gains.
- (2) Routine expenses of revenue nature on repairs and maintenance do not constitute cost of improvement.
- (3) If the assessee had acquired the property by way of a mode as referred to in section 49(1), then any cost of improvement incurred by the previous owner as well as by the assessee (on or after 01-04-2001), shall be taken into consideration, in order to compute the amount of capital gains in his hands.
- (4) Cost of improvement, in relation to a capital asset being goodwill or any other intangible asset of a business or any right (such as or a right to manufacture, produce or process any article or thing or right to carry on any business or profession) shall be taken to be Nil. (It makes no difference, whether such capital assets were acquired for a price or self-generated).
- (5) If any capital expenditure incurred on or after 01-04-2001 is already allowed as a deduction under any of the provisions of the Income Tax Act, 1961, then such capital expenditure shall not be allowed once again as cost of improvement while computing the amount of capital gains.
- (6) Cost of improvement shall not include the deductions claimed on the amount of interest u/s 24(b) or deductions under chapter VIA, from G.T.I.

Indexed Cost of Acquisition (ICOA) - [Explanation (iii) to section 48]

$$\frac{\text{Cost of Improvement (COI) } (\times) \text{ CII of the year of transfer}}{\text{CII of the year of in which the improvement was made by the assessee or the previous owner}}$$

Cost Inflation Index notified by Central Government w.e.f. 2001-02 onwards

P.Y.	CII	P.Y.	CII
2001-02	100	2012-13	200
2002-03	105	2013-14	220
2003-04	109	2014-15	240
2004-05	113	2015-16	254
2005-06	117	2016-17	264
2006-07	122	2017-18	272
2007-08	129	2018-19	280
2008-09	137	2019-20	289
2009-10	148	2020 – 21	301
2010-11	167	2021 – 22	317
2011-12	184	2022-23	331
		2023-24	348

Specific Charge

Profits or Gains arising on Receipt of Insurance Claim on Damage or Destruction of a Capital Asset - [Section 45(1A)]

Where the assessee is in receipt of money or other assets from the insurance company as insurance claim on account of damaged or destruction of a capital asset as a result of:

- (N) : natural calamities like flood, cyclone, earthquake, hurricane or other conversions of the nature
- (R) : riots or civil disturbance
- (F) : fire or explosion (accidental)
- (E) : enemy attack or an action taken in combating an enemy (with or without declaration of war)

then, any profits or gains arising from receipt of such money or other assets shall be chargeable to tax under the head 'Capital Gains' and shall be deemed to be the income of the previous year in which such money or other asset was received and for the purposes of computation of the capital gains, value of any money or the fair market value of other assets on the date of such receipt shall be deemed to be the full value of the consideration received or accruing as a result of the transfer of such capital asset.

Note:

(1) FVC = Amount of money and/or the FMV of the other assets received as insurance claim.

(2) Year of transfer = Year in which the capital asset is damaged or destroyed.

(3) Year of taxability of capital gains u/s 45(1A) = Year in which the amount of insurance claim is received by the assessee.

The year of damage or destruction of the capital asset (i.e. the year of transfer) and the year of receipt of insurance claim (i.e. the year of chargeability of capital gains) may or may not be the same.

Hence, in such cases, the profits or gains may be charged to tax in the year different from the previous year in which the transfer has taken place.

(4) Period of holding of the capital asset = Period from the date of acquisition of the capital asset till the date of damage or destruction.

Where on the basis of period of holding determined as above, if the capital asset becomes a long-term capital asset, then, benefit of indexation would be granted upto the previous year in which the damage or destruction had taken place.

In other words, for the purpose of calculation of indexed cost of acquisition (ICOA), the COA is to be multiplied by the CII of the year of transfer (i.e. year of damage or destruction) and divided by the CII of the year of acquisition.

(5) Damage or destruction of the capital asset due to natural calamities, fire, flood, riots etc. is to be treated as transfer only where the insurance claim is received by the assessee.

However, if the capital asset is damaged or destroyed and the capital asset was not insured or the insurance claim was not received due to any reason, then neither section 45(1A) nor section 45(1) shall be attracted. Damage or destruction in such cases shall not to be treated as transfer and the cost of such capital asset shall be treated as a dead loss in the hands of the assessee.

(6) Insurance claim received towards the loss of raw materials or stock-in-trade shall be taxable as 'PGBP' income and provisions of section 45(1A) shall not apply in such case.

(7) If the damaged machinery is repaired and re-used, the expenses on repairs are deductible u/s 31 from the 'PGBP' income.

Any insurance claim received by the assessee, to the extent of such expense which was earlier allowed u/s 31 shall be deemed to be the income chargeable under the head 'PGBP' as per section 41(1).

However, excess amount of insurance claim (if any) remaining after such adjustment is a capital receipt & in the absence of any specific provision regarding its taxability under the Income Tax Act, 1961, such capital receipt is not chargeable to tax and hence, the same needs to be ignored - [Sirpur Paper Mills Ltd. (SC)]

New provisions for U.L.I.P plan u/s 45(1B)

Where any person receives any amount on maturity under Unit Limited Insurance Policy (U.L.I.P.) which is not exempt u/s 10(10D), then any profit arising would be taxable under Capital Gains under section 45(1B).

Profits or Gains arising on Conversion of a Capital Asset into Stock-in-trade - [Section 45(2)]

Any profits or gains arising from the transfer by way of conversion by the owner of a capital asset into, or its treatment by him as stock-in-trade of a business carried on by him shall be chargeable to income-tax as his income of the previous year in which such stock-in-trade is sold or otherwise transferred by him and, for the purposes of computation of the capital gains in the hands of the assessee, the fair market value of the asset as on the date of such conversion or treatment shall be deemed to be the full value of the consideration received or accruing as a result of the transfer of the capital asset.

Note:

- (1) FVC = FMV of the converted capital asset as on the date of conversion into or treatment as stock-in-trade.
(This FMV shall also be deemed to be the cost price of the stock-in-trade for the purpose of computing the amount of 'PGBP' income as decided by the **Hon'ble Supreme Court in the case of Bai Shirinbai K. Kooka**).
- (2) Conversion of the capital asset into, or its treatment by the assessee as stock-in-trade is a taxable transfer as per section 2(47).
Hence, the Year of transfer = Year of conversion into or treatment as stock-in-trade.
- (3) Year of taxability of capital gains u/s 45(2) = Year in which the stock-in-trade is sold. (In the year of sale of stock-in-trade along with 'PGBP' income capital gains u/s 45(2) shall also be charged to tax).
Further, the year of conversion into or treatment of capital asset into stock-in-trade (i.e. the year of transfer) and the year of sale of such stock-in-trade (i.e. the year of chargeability of capital gains) may or may not be the same. Hence, in such cases, the profits or gains may be charged to tax in the year different from the previous year in which the transfer has taken place.

- (4) Period of holding of the capital asset = Period from the date of acquisition of the capital asset till the date of conversion into or treatment as stock-in-trade.
Where on the basis of period of holding determined as above, if the capital asset becomes a long-term capital asset, then, benefit of indexation would be granted upto the previous year in which the capital asset is so converted into or treated as stock-in-trade.
In other words, for the purpose of calculation of indexed cost of acquisition (ICOA), the COA is to be multiplied by the CII of the year of transfer (i.e. year of conversion into or treatment as stock-in-trade) and divided by the CII of the year of acquisition.
- (5) If the stock-in-trade is acquired by the assessee, otherwise than by way of purchase (for example gift), then the COA of such stock in trade shall be the FMV on the date when such stock-in-trade was acquired (i.e. FMV as on the date of gift).

Profits or Gains arising on Compulsory Acquisition of a Capital Asset under any Law - [Section 45(5)]

Where the capital gain arises from the transfer of a capital asset, being:

- a transfer by way of compulsory acquisition under any law; or
- a transfer, the consideration for which was determined or approved by the Central Government or the Reserve Bank of India;

and the compensation or the consideration for such transfer is enhanced or further enhanced by any court, tribunal or other authority, the capital gain shall be dealt with in the following manner, namely:

- (a) the capital gain computed with reference to the compensation awarded in the first instance or, as the case may be, the consideration determined or approved in the first instance by the Central Government or the Reserve Bank of India shall be chargeable as income under the head 'Capital Gains' of the previous year in which such compensation or part thereof, or such consideration or part thereof, was first received; and
- (b) the amount by which the compensation or consideration is enhanced or further enhanced by the court, tribunal or other authority shall be deemed to be income chargeable under the head 'Capital Gains' of the previous year in which such amount is received by the assessee.

Provided that any amount of compensation received in pursuance of an interim order of a court, tribunal or other authority shall be deemed to be income chargeable under the head 'Capital Gains' of the previous year in which the final order of such court, tribunal or other authority is made;

- (c) where in the assessment for any year, the capital gain arising from the transfer of a capital asset is computed by taking the compensation or consideration referred to in clause (a) or, as the case may be, enhanced compensation or consideration referred to in clause (b), and subsequently such compensation or consideration is reduced by any court, tribunal or other authority, such assessed capital gain of that year shall be recomputed by taking the compensation or consideration as so reduced by such court, tribunal or other authority to be the full value of the consideration.

Explanation to section 45(5) states that, for the purposes of section 45(5):

- (i) in relation to the amount referred to in clause (b), the cost of acquisition and the cost of improvement shall be taken to be NIL;
- (ii) where by reason of the death of the person who made the transfer, or for any other reason, the enhanced compensation or consideration is received by any other person, the amount referred to in clause (b) shall be deemed to be the income, chargeable to tax under the head 'Capital Gains', of such other person.

Note:

- (1) FVC = Amount of initial compensation awarded on compulsory acquisition of the capital asset.
- (2) Compulsory acquisition of the capital asset under any law is a taxable transfer as per section 2(47). Hence, the Year of transfer = Year of compulsory acquisition.
- (3) Year of taxability of capital gains u/s 45(5) = Year in which the amount of initial compensation or any part thereof is received by the assessee.

Further, the year of compulsory acquisition (i.e. the year of transfer) and the year of receipt of initial compensation (i.e. the year of chargeability of capital gains) may or may not be the same. Hence, in such cases, the profits or gains may be charged to tax in the year different from the previous year in which the transfer has taken place.

- (4) Period of holding of the capital asset = Period from the date of acquisition of the capital asset till the date of compulsory acquisition.

Where on the basis of period of holding determined as above, if the capital asset becomes a long-term capital asset, then, benefit of indexation would be granted upto the previous year in which the capital asset is compulsorily acquired.

In other words, for the purpose of calculation of indexed cost of acquisition (ICOA), the COA is to be multiplied by the CII of the year of transfer (i.e. year of compulsory acquisition) and divided by the CII of the year of acquisition.

- (5) If the assessee is not satisfied with the amount of initial compensation awarded to him, he can make an appeal to a competent court or tribunal or other authority in this regard so as to get the amount of initial compensation increased. In such case the court or tribunal or other authority may order for an enhanced compensation. The difference between the enhanced compensation and the initial compensation i.e. additional compensation shall be chargeable to tax in the previous year in which it is received but after allowing for a deduction w.r.t. litigation (legal) expenses incurred wholly & exclusively in this regard. However, COA & COI shall be taken to be NIL while computing the amount of capital gains in this case (i.e. no deduction for COA & COI shall be granted out of such additional compensation). Further, the nature of capital gains in this case would be same as calculated earlier on receipt of initial compensation (for example, if the capital gains calculated earlier was LTCG, then on receipt of additional compensation, the resulting capital gains would also be considered to be LTCG). However, if the additional compensation received as a result of interim order of the court or tribunal or other authority then, the same shall be deemed to be the income chargeable to tax under the head capital gains for the year in which the final order of such court or tribunal or other authority is received and not of the previous year in which the same was received.
- (6) If the amount of initial compensation or the enhanced compensation is further reduced by any court or tribunal or other authority, then the original capital gains computed earlier on the basis of initial compensation or enhanced compensation shall be recomputed and taxed accordingly.
- (7) **Exemption u/s 10(37):**
The whole of the capital gains (STCG as well as LTCG) shall be exempt from tax if all the following conditions are satisfied:
- the tax payer is an **individual or HUF;**
 - he/it owns a capital asset being **urban agricultural land;**
 - such urban agricultural land is **compulsorily acquired and the consideration (compensation) is determined or approved by the Central Government or the Reserve Bank of India;**
 - such urban agricultural land was **used during the immediately preceding 2 years for agricultural purposes by the assessee and/or his parents; and**
 - consideration (i.e. **compensation**) on such compulsory acquisition **is received on or after 01-04-2004.**

Special Aspects

Capital Gain on transfer of Depreciable Assets forming part of Block of Assets -

[Section 50]

When whole block is transferred
(i.e. block ceases to exist)

When whole block is not transferred
(i.e. block does not cease to exist)

NC < (WDV + Additions)

NC > (WDV + Additions)

NC < (WDV + Additions)

Difference is short-term
capital loss (STCL)

Difference is short-term
capital gains (STCG)

Difference eligible for
claim of depreciation

Where,

NC = Net Consideration i.e. Full Value of Consideration (FVC) (-) Expenses on transfer

WDV = Written down value (WDV) of the whole block as on the first day of the previous year (i.e. opening WDV of the block of assets).

Additions = Actual cost of the assets in the block acquired/added during the previous year.

Note:

- (1) Capital gain arising in all the above cases shall be deemed to be arising out of the transfer of short-term capital assets.
Hence, such capital gain would always be short-term capital gain irrespective of the period of holding of the depreciable capital asset.
- (2) Further, the benefit of indexation shall not be available in case of transfer of depreciable capital assets forming part of the block of assets.
- (3) No depreciation is allowed on goodwill from A.Y. 21-22
The purchase price of goodwill, if any, will continue to be cost of acquisition for section 48 computation. If in case assessee had claimed depreciation under section 32 prior to A.Y. 21-22, then the purchase price of "good will" will be reduced by such depreciation amount. The reduction of the amount of "good will" from the block, shall be deemed to be transfer.

Cost of Acquisition in case of Depreciable Assets of Electricity Companies - [Section 50A]

With respect to the power sector;

- in case of depreciable assets referred to in section 32(1)(i);
- the provisions of sections 48 and 49 shall apply subject to the modification that;
- the WDV of the asset as defined in section 43(6), as adjusted, shall be taken to be the cost of acquisition.

Capital Gain in case of "Market Linked Debentures" - [Section 50AA] -such capital gains (computed ignoring indexation & STT paid) will always be taxable as short term capital gains irrespective of period of holding.

Capital Gain in case of Slump Sale - [Section 50B]

Slump Sale - [Section 2(42C)]:

Slump sale means, transfer u/s 2(47) of one or more undertakings or divisions by any means for a lump sum consideration without assigning any value to the individual assets and liabilities in such transfer.

In other words, it is a transfer where the assessee transfers one or more undertakings/divisions as a whole including all its assets and liabilities as a going concern.

The consideration is fixed for the undertaking or division as a whole without it being fixed for each of the assets of such undertaking or division.

Hence, in such case, the undertaking or the division transferred shall be treated as a capital asset.

Capital Gain in case of Slump Sale - [Section 50B]

Slump Sale - [Section 2(42C)]:

Slump sale means, transfer u/s 2(47) of one or more undertakings or divisions by any means for a lump sum consideration without assigning any value to the individual assets and liabilities in such sale/transfer.

In other words, it is a transfer where the assessee transfers one or more undertakings/divisions as a whole including all its assets and liabilities as a going concern.

The consideration is fixed for the undertaking or division as a whole without it being fixed for each of the assets of such undertaking or division.

Hence, in such case, the undertaking or the division transferred shall be treated as a capital asset.

Note:

(1) Full Value of Consideration (FVC):

The amount of lumpsum consideration received or receivable for transfer of undertaking or division or the fair market value (whichever is higher) shall be taken as the full value of consideration for the purpose of computing the amount of capital gain u/s 50B.

(2) Cost of Acquisition (COA):

Net worth of the undertaking shall be deemed to be the cost of acquisition of the undertaking or the division so transferred in slump sale.

Note:

The net worth of the undertaking shall be the aggregate value of total assets of the undertaking or division minus the value of liabilities of such undertaking or division as appearing in its books of account.

Computation of Net Worth for Section 50B:

In the case of depreciable assets	WDV of block of assets as per section 43(6)	XX
Capital asset in respect of which 100% deduction is claimed u/s 35AD	Nil	Nil
Self generated goodwill	Nil	Nil
For All Other Assets	Book Value as appearing in the balance sheet	XX
Aggregate Value of Total Assets		XX
Less: Outsiders' Liabilities	Book Value as appearing in the balance sheet	(XX)
Net Worth for Section 50B		XX

Note:

Any change in the value of assets on account of revaluation of assets shall not be considered for this purposes.

(3) If the undertaking or the division is owned & held for 36 months or less, it would be treated as a short-term capital asset whereas, if it was owned & held for more than 36 months, then, it would be treated as a long-term capital asset.

Benefit of Indexation of cost shall not be available even if the undertaking which is transferred is a long-term capital asset.

(4) As per the explanation to section 48, if the slump sale agreement determines the value of individual assets & liabilities for the sole purpose of payment of stamp duty, or registration fees, or similar taxes, then the same shall not imply the assignment of values to the individual assets and liabilities.

However, if the slump sale agreement specifies the individual values of each asset to be transferred, then the provisions of Section 50B shall not be applicable and the capital gain on each asset shall be calculated separately.

(5) No 'PGBP' income shall arise in the case of a slump sale transaction, even if stock-in-trade is transferred as a part of the said transaction. This is because the undertaking as a whole is sold and not the individual assets.

Full Value of Consideration in case of transfer of Immovable Properties - [Section 50C]

✓ Where the assessee has transferred **any capital asset, being land or building or both; and**

- the **consideration declared** by the assessee to be received or accruing as a result of transfer of such immovable property **is less than the stamp duty value (SDV)** assessed or assessable by the state stamp duty authorities (**i.e. Consideration < SDV**);
- then, for the purpose of computation of the capital gain arising on transfer of such immovable property, the amount of **stamp duty value (SDV) assessed or assessable shall be deemed to be the full value of consideration (FVC)** as per section 50C.

✓ Where the date of agreement and date of registration are not the same, then, the SDV as on the date of the agreement may be taken for the purposes of computing the FVC provided that the amount of consideration, or a part thereof, is received by way of an A/c payee cheque or A/c payee bank draft or use of electronic clearing system through a bank account, on or before the date of such agreement.

The provisions of section 50C shall be applicable only if:

The difference between the SDV and the consideration exceeds 10% of the consideration.

✓ Further, in a case where the assessee claims before the A.O. that the SDV adopted or assessed or assessable by the stamp duty authorities exceeds the FMV of the property as on the date of transfer and he has not disputed or challenged such SDV before any court or tribunal.

Then, the A.O. may on the basis of such claim made by the assessee, refer the matter to the departmental valuation officer (DVO) for the purpose of determination of the FMV of the said property.

In such case, two possibilities may arise:

- (a) Value as determined by the DVO is less than the SDV adopted for the stamp duty purposes (i.e. DVO value < the SDV):

In such case, the value as determined by the DVO shall be deemed to be the FVC for the purpose of computation of capital gains.

- (b) Value as determined by the DVO is more than the SDV adopted for the stamp duty purposes (DVO value > the SDV):

In such case the value so determined by the DVO cannot be taken to be the FVC. The SDV so adopted or assessed or assessable shall only be deemed to be the FVC for the purpose of computation of capital gains.

Note:

Where the assessee acquires land and constructs a building on such land in any subsequent previous year, then, for the purpose of computation of capital gains arising from transfer of land along with such building (i.e. house property), the period of holding of the land and the period of holding of the building shall be determined separately.

The period of holding of the land shall be determined from the date of its acquisition till the date of sale of house property. On the other hand, the period of holding of the building shall be from the date of completion of building till the date of sale of house property.

Thus, for the purpose of computation of capital gains, indexed cost, if required, would be computed separately for the land and for the building.

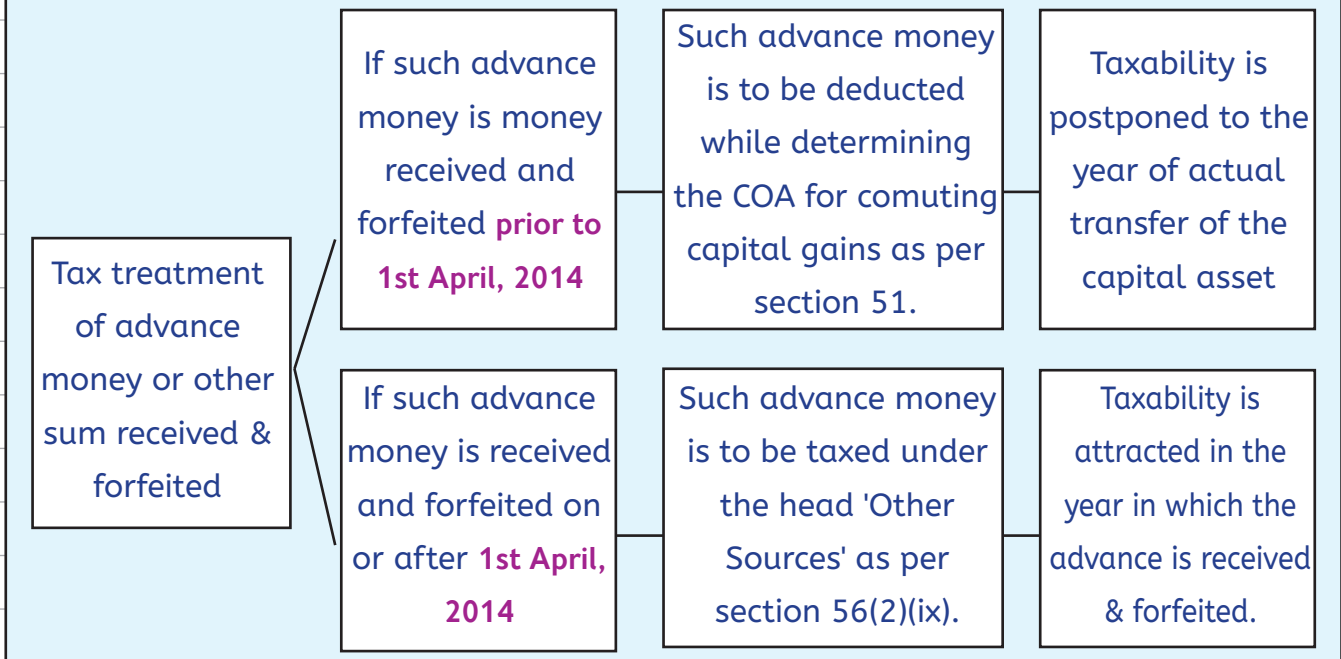
Full Value of Consideration in case of transfer of Share other than Quoted Shares -

[Section 50CA]

Where the assessee has transferred a capital asset being shares other than quoted shares of a company **and** the consideration received or accruing as a result of transfer of such shares is less than the fair market value (FMV) of such shares determined in prescribed manner. (i.e. **Consideration < FMV**).

Then, for the purpose of computation of the capital gain arising on transfer of such shares, **the amount of fair market value (FMV) determined in prescribed manner shall be deemed to be the full value of consideration (FVC)** as per the provisions of section 50CA.

Advance Money or Other Sum Received & Forfeited - [Section 51]



Note:

- (1) Advance money or other sum received and retained prior to 01-04-2014 shall only be considered u/s 51 to be deducted out of the cost of acquisition in the hands of the assessee. Any such amount received and retained on or after 01-04-2014 shall not be adjusted as above because the same gets charged to tax under the head 'Other Sources' as per the provisions of section 56(2)(ix).
- (2) Any advance money or other sum received and retained by the previous owner shall not be deducted out of the cost of acquisition of the assessee. The same shall be ignored.
- (3) The amount advance money or other sum received and retained by the assessee shall first be deducted out of the cost for which the asset was acquired or the written down value or the fair market value, as the case may be, and only after such deduction the benefit of indexation on cost of acquisition (if applicable) shall be available.

Distribution of Assets to Shareholders on Liquidation - [Section 46]

✓ **Tax treatment in the hands of the Company:**

As per the provisions of **section 46(1)**, notwithstanding anything contained in section 45, where the assets of a company are distributed to its shareholders on liquidation, such distribution shall not be regarded as transfer by the company for the purpose of section 45. Hence, no capital gain would arise in the hands of such company on such distribution.

✓ **Tax treatment in the hands of the Shareholder:**

As per the provisions of **section 46(2)**, capital gain would arise in the hands of such shareholder. This is because, there is an 'extinguishment of right' in the capital asset (being shares held in the company in liquidation) for which the shareholder gets money or other assets from such company.

Note:

For the purpose of determining the period of holding of such shares in the hands of the shareholder, period after the date of liquidation shall not be considered.

The capital gain arising in the hands of such shareholder would be computed in the following manner:

Step 1:

Ascertain the amount of total distribution on liquidation i.e. Money (Cash) distributed (+) FMV of the asset distributed as on the date of distribution.

Step 2:

Determine shareholder's interest in the accumulated profits of the company as on the date of liquidation i.e. amount of deemed dividend u/s 2(22)(c).

Step 3:

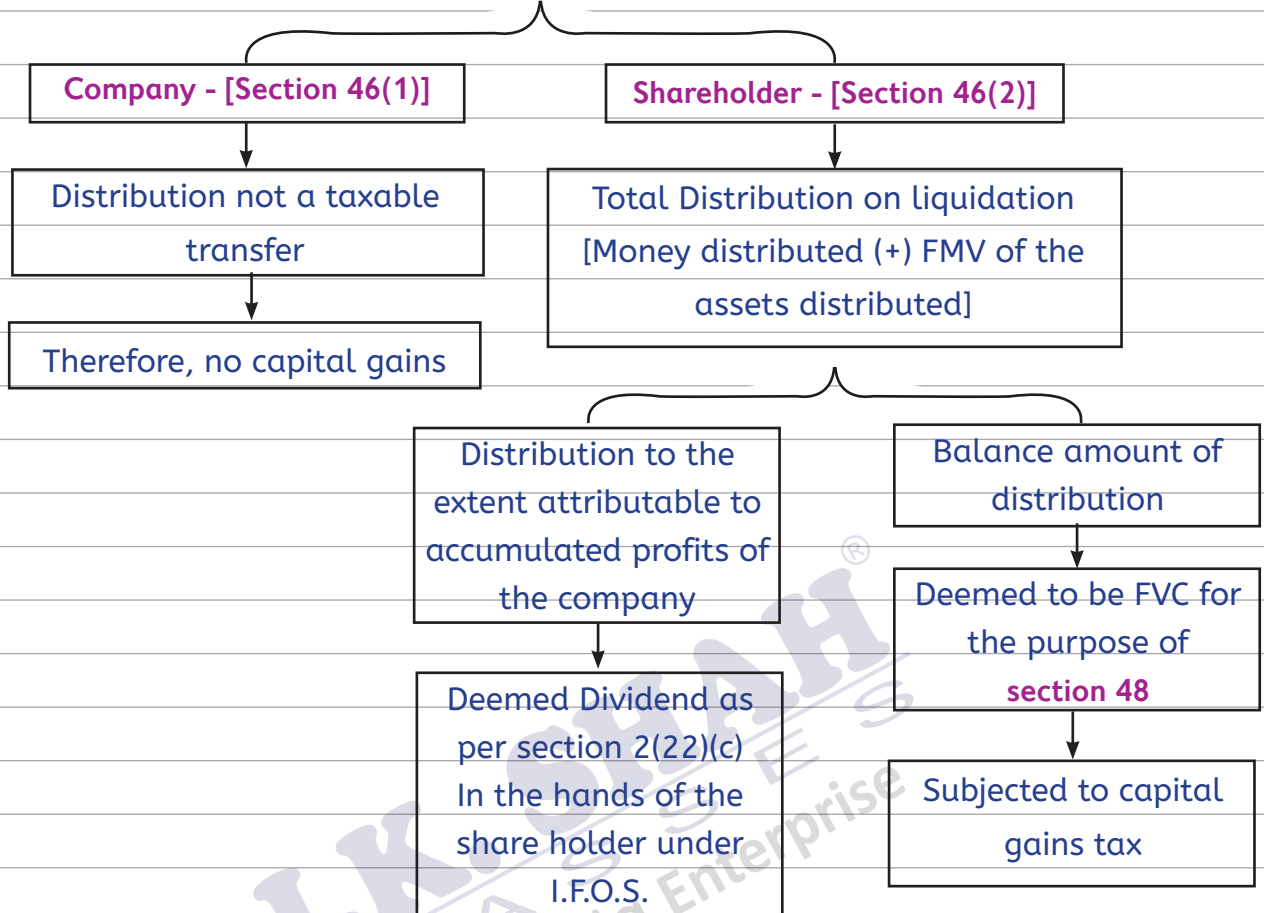
Amount as per Step 1 (-) Amount as per Step 2 shall be deemed to be the full value of consideration (FVC) in the hands of the shareholder for transfer of shares held in the company in liquidation.

Step 4:

Amount as per Step 3 (i.e. FVC) (-) COA or ICOA of the shares held in the company in liquidation shall be the amount of capital gains chargeable to tax in the hands of the shareholder.

Summary of Section 46

Tax treatment of such distribution in the hand of the



Capital Gains on Purchase by a Company of its Own Shares or Other Specified Securities (i.e. Buy-back of Securities) - [Section 46A]

Taxation provisions in respect of buyback effected on or after 05.07.2019

Taxability for the	Buy-back of shares by domestic companies	Buy-back of shares by company other than domestic companies	Buy-back of specified securities by any company
Company u/s 115QA	Subject to additional income tax @ 23.296%.	Not subject to tax in the hands of the company.	Not subject to tax in the hands of the company
Shareholder	Income arising to shareholders exempt under section 10(34A)	Income arising to shareholder taxable as capital gains u/s 46A.	Income arising to holder of specified securities taxable as capital gains u/s 46A.

Capital Gains on Conversion of Debentures into Shares

- ✓ Conversion of debentures or any part thereof of a company into shares of that company - **[Exempt u/s 47(x)]**.
- ✓ However, when the shares which the assessee has acquired on such conversion are later on transferred, capital gain shall arise and shall be chargeable to tax in the previous year in which such shares are transferred.
 - (a) Cost of acquisition (COA) of such shares = Cost of that part of debenture in relation to which such shares are received by the assessee - **[Section 49(2A)]**.
 - (b) Period of holding of such shares shall also include the period for which the debentures were held by the assessee prior to such conversion - **[Rule 8AA(2)]**.

Capital Gains on Conversion of Preference Shares into Equity Shares

- ✓ Conversion of preference shares or any part thereof of a company into equity shares of that company - **[Exempt u/s 47(xb)]**.
- ✓ However, when the equity shares which the assessee has acquired on such conversion are later on transferred, capital gain shall arise and shall be chargeable to tax in the previous year in which such equity shares are transferred.
 - (a) Cost of acquisition (COA) of such equity shares = Cost of that part of preference shares in relation to which such equity shares are received by the assessee - **[Section 49(2AE)]**.
 - (b) Period of holding of such equity shares shall also include the period for which the preference shares were held by the assessee prior to such conversion - **[Explanation 1 to Section (2)(42A)]**.

Zero Coupon Bonds (ZCBs) & their Taxability

Zero Coupon Bonds (ZCBs) - **[Section 2(48)]**:

A zero coupon bond (ZCB) means:

- a bond issued by any infrastructure capital company or infrastructure capital fund or infrastructure debt. fund or a public sector company or a scheduled bank on or after 1st June, 2005;
- in respect of which no payment and benefit is received or receivable before the maturity or redemption from such issuing entity; and
- which the Central Government may notify in this behalf.

Note:

- (1) Section 2(47) provides that maturity or redemption of a ZCB shall be treated as a transfer for the purposes of capital gains tax.
Further, if ZCBs are held for 12 months or less, they would be treated as short-term capital assets whereas, if they are held for more than 12 months, then, they would be treated as long-term capital assets.
- (2) The income on transfer of a ZCB (not held as stock-in-trade) is to be treated as capital gains.

Exemption u/s 54

Capital Gains on sale of residential house [Section 54]

- (1) **Eligible Assessee** - Individuals & HUFs
- (2) **Conditions to be fulfilled:**
 - (a) There should be a transfer of residential house (buildings or lands appurtenant thereto)
 - (b) It must be a long-term capital asset
 - (c) Income from such house should be chargeable under the head 'House Property'
- (3) **Where the amount of capital gains exceeds Rs. 2 crores:**
Where the amount of capital gain exceeds Rs. 2 crores, one residential house in India should be purchased within 1 year before or 2 years after the date of transfer (or) constructed within a period of 3 years after the date of transfer.
- (4) **Where the amount of capital gains does not exceed Rs. 2 crores:**
Where the amount of capital gains does not exceed Rs. 2 crores, the assessee i.e., individual or HUF, may at his option, purchase two residential houses in India within 1 year before or 2 years after the date of transfer (or) construct two residential houses in India within a period of 3 years after the date of transfer.

Note: Where during any assessment year, the assessee has exercised the option to purchase or construct two residential houses in India, he shall not be subsequently entitled to exercise the option for the same or any other assessment year.

If such investment is not made before the date of filing of return of income, then the capital gain has to be deposited under the CGAS (Capital Gain Account Scheme). Amount utilized by the assessee for purchase or construction of new asset and the amount so deposited shall be deemed to be the cost of new asset.

(5) **Quantum of Exemption:**

- (a) If cost of new residential house or houses, as the case may be \geq long term capital gains, entire long term capital gains is exempt.
- (b) If cost of new residential house or houses, as the case may be $<$ long term capital gains, long term capital gains to the extent of cost of new residential house is exempt.

Examples:

- (1) If the long-term capital gains is Rs. 2.05 crore and the cost of the new house is Rs. 3 crore, then, the entire long-term capital gains of Rs. 2.05 crore is exempt.
- (2) If long-term capital gains is Rs. 2.05 crore and cost of new house is Rs. 1.55 crore, then, long-term capital gains is exempt only upto Rs. 1.55 crore. Balance Rs. 50 lakhs is taxable @ 20%.

- (c) Where the cost of acquisition of new house property exceeds 10cr, exemption u/s 54 will be restricted to G.L.T.C.G. or 10 cr. which is least.

(6) **Consequences of transfer of new asset before 3 years:**

If the new asset is transferred before 3 years from the date of its acquisition or construction, then cost of the asset will be reduced by capital gains exempted earlier for computing capital gains.

Continuing Example 1, if the new house was sold after 21 months for Rs. 5 crore, then short term capital gain chargeable to tax would be –

Net Consideration	5,00,00,000
Less: Cost of acquisition minus capital gains exempt earlier [Rs. 3,00,00,000 (-) Rs. 2,05,00,000)	95,00,000
Short term capital gains chargeable to tax	4,05,00,000

Exemptions u/s 54B & 54D

Points	Section 54B	Section 54D
Who can claim the exemption?	Individual/HUF	All Assesseees
Type of capital asset	STCA/LTCA	STCA/LTCA

Which specific capital asset is to be transferred?	Urban Agricultural Land, if it was used by the HUF or individual or any of his parents for agricultural purposes for at least 2 years immediately prior to the date of transfer	Land/Building forming part of an industrial undertaking which is compulsorily acquired under any law & which was used for at least 2 years for industrial purposes prior to such compulsory acquisition
Acquisition of which specific capital asset to claim exemption?	Agricultural Land (can be rural as well as urban)	Land/Building for industrial purposes
Time limit for investment in new asset	Purchase within 2 years from the date of transfer	Purchase within 3 years from the date of transfer
CGDAS applicable?	Yes (Refer Note)	Yes (Refer Note)
From which date the time limit for investment shall be determined?	From the date of transfer (in the case of compulsory acquisition, from the date of receipt of compensation)	From the date of receipt of compensation
Amount of exemption	Lower of: Investment in New Asset or Amount of Capital Gain	Lower of: Investment in New Asset or Amount of Capital Gain
Revocation of exemption	If the new asset is transferred within 3 years of its acquisition	If the new asset is transferred within 3 years of its acquisition
How the exemption would be revoked?	Reduce the amount of exemption out of COA of new asset at the time of computing the capital gain on transfer of new capital asset	Reduce the amount of exemption out of COA of new asset at the time of computing the capital gain on transfer of new capital asset

Exemptions u/s 54EC

Points	Section 54EC
Who can claim exemption?	All Assesseees
Type of capital asset	LTCA

Which specific capital asset is to be transferred?	Any capital asset being an immovable property (W.e.f. 01.04.2018)
Acquisition of which specific capital asset to claim exemption?	Bonds of RECL/NHAI or Bonds notified by CBDT (Bonds of PFC and IRFC have been notified in this regard)
Time limit for investment in new asset	Purchase within 6 months from the date of transfer
CGDAS applicable?	No
From which date the time limit for investment shall be determined?	From the date of transfer (in the case of compulsory acquisition, from the date of receipt of compensation)
Amount of exemption	Lower of: Investment in New Asset (subject to max. Rs. 50 lakhs in the year of transfer & in the next year) or Amount of Capital Gains
Revocation of exemption	If the new asset is transferred or converted into money or a loan is taken on the security of the new asset within 5 years of its acquisition - (W.e.f. 01.04.2018)
How the exemption would be revoked?	Capital gains exempted shall be treated as LTCG of the year in which the conditions of revocation is met

Exemptions u/s 54F

Who can claim exemption?	
Who can claim exemption?	Individual/HUF
Type of capital asset	LTCA
Which specific capital asset is to be transferred?	Any capital asset, other than a RHP (provided that, as on the date of such transfer the assessee does not own more than one RHP)
Acquisition of which specific capital asset to claim exemption?	One RHP in India
Time limit for investment in new asset	Purchase within 1 year prior to or within 2 years from the date of transfer

	Construction
	within 3 years from the date of transfer
CGDAS applicable?	Yes (Refer Note)
From which date the time limit for investment shall be determined?	From the date of transfer (in the case of compulsory acquisition, from the date of receipt of compensation)
Amount of exemption	If the investment in New Asset is: (a) more than or equal to the amount of net consideration: 100% of the capital gain shall be exempt. (b) less than the amount of net consideration: exemption u/s 54F shall be equal to: LTCG (x) Investment in New Asset (÷) Net Consideration (c) where the cost of acquisition of new house/amount of investment exceeds 10Cr. Then excess amount will be ignored.
Revocation of exemption	If the new asset is transferred within 3 years of its acquisition or another RHP is purchased within 2 years or constructed within 3 years from the date of transfer of original asset
How the exemption would be revoked?	Capital gains exempted shall be treated as LTCG of the year in which the conditions of revocation is met

Note:

Capital Gains Deposit Accounts Scheme [CGDAS]:

U/s 54, 54B, 54D, 54F, the capital gains is exempt if such gain or net consideration, as the case may be, is invested in new assets, as mentioned in the respective sections, within the time allowed for the said purpose.

If however, such investment is not made before the date of furnishing the return of income, then, the amount of the capital gain or the net consideration, as the case may be, is required to be deposited in an account under CGDAS.

In such case, the amount so deposited shall be deemed to have been invested in the specified manner and on the basis of such deposit, the assessee could claim the exemption u/s 54, 54B, 54D, 54F, as the case may be.

The relevant points in this regard are as follows:

- (a) The deposit must be made on or before:
 - the actual date of furnishing the return of income; or
 - the due date for furnishing the return of income u/s 139(1).
whichever happens earlier.
- (b) The deposit shall be made with any bank or an institution approved for such purpose.
- (c) The return of income shall be accompanied by the proof of such deposit.
- (d) The amount deposited can be withdrawn for utilisation in accordance with the scheme, for the specified purposes only and not for any other purpose.
- (e) If in any previous year, the amount deposited in CGD A/c is withdrawn and utilised for purposes other than the specified purpose (i.e. mis-utilised); then, the amount of mis-utilisation shall be treated as a capital gain chargeable to tax for the previous year in which the amount was mis-utilised.
However, where the exemption on the basis of such deposit was granted u/s 54F; then, the capital gain exempted u/s 54F which is related to the amount of such mis-utilisation shall be treated as capital gain chargeable to tax for the previous year in which the amount was so mis-utilised.
- (f) Further, if the amount deposited in CGD A/c is not utilised in the manner specified in respective section on or before the expiry of the prescribed period (i.e. remains unutilised); then, the amount which remains unutilised in such CGD A/c shall be treated as a capital gain chargeable to tax for the previous year in which the prescribed period expires.
- (g) However, where the exemption on the basis of such deposit is granted u/s 54F; then, the amount of capital gain exempted u/s 54F which is related to the amount which remains unutilised in CGD A/c shall be treated as capital gain chargeable to tax for the previous year in which the prescribed period so expires.
- (h) The CBDT has clarified that in the case of an individual who dies before the expiry of the stipulated period, any unutilised amount in the CGD A/c shall not be chargeable to tax in the hands of the legal heirs.

Extension of time for acquiring new asset or depositing or investing amount of Capital Gain [Section 54H]

In case of compulsory acquisition of the original asset, where the compensation is not received on the date of transfer, the period available for acquiring a new asset or making investment in CGAS under sections 54, 54B, 54D, 54EC and 54F would be considered from the date of receipt of such compensation and not from the date of the transfer.

Tax Rates on Short-term Capital Gains (STCG)

Section	Situation	Tax Rate
111A	(a) STCG on transfer of listed equity shares or units of EOMF and units of business trust (provided that, the transaction of sale of such equity shares or units is undertaken on or after 01-10-2004 and is subjected to STT).	
	(b) STCG arising from transactions undertaken in foreign currency on a recognized stock exchange located in an International Financial Services Centre (IFSC) (even though such transactions are not liable to STT).	15%

Note:

- (1) STCG on transfer of any other capital asset shall be Taxable @ Normal Rates.
- (2) Deductions under chapter VI-A (i.e. Deductions u/s 80C to 80U) shall not be allowed against the STCG chargeable to tax u/s 111A.
- (3) In case of a resident individual or a HUF, the STCG taxable u/s 111A shall be reduced by the amount of unexhausted basic exemption limit and the balance shall be subjected to tax.

Tax Rates on Long-term Capital Gains (LTCG)

Section	Situation	Tax Rate
112A	(W.e.f. 01.04.2018):	
	(a) LTCG on transfer of:	
	- listed equity shares (if STT has been paid at the time of acquisition as well as transfer of such shares)	
	- units of equity-oriented fund [which includes units under U.L.I.P. Scheme which is not exempt u/s 10(10D)] and unit of business trusts (if STT has been paid on transfer of such units.	
	LTCG u/s 112A upto Rs. 1,00,000	Not Taxable
	LTCG u/s 112A in excess of Rs. 1,00,000	Taxable @ 10%
	(b) LTCG arising from transactions undertaken in foreign currency on a recognized stock exchange located in an International Financial Services Centre (IFSC) (even though such transactions are not liable to STT).	Taxable @ 10%
	Note:	
	Benefit of indexation shall not be available in above cases.	

112	<p>(a) LTCG on transfer of listed securities (other than units) or ZCBs. Taxable @: 10% without indexation or 20% with indexation (whichever is more beneficial to the assessee)</p>
	<p>(b) LTCG on transfer of unlisted securities or shares of a closely held company Taxable @: - 10% without indexation and currency fluctuation - (In case of non-residents & foreign companies) - 20% with indexation benefit - (In case of other assessees)</p>
	<p>(c) LTCG on transfer of any other capital assets Taxable @ 20%</p>

Note:

- (1) Deductions under chapter VI-A (i.e. Deductions u/s 80C to 80U) shall not be allowed against the LTCG chargeable to tax u/s 112 and 112A.
- (2) In case of a resident individual or a HUF, the LTCG taxable u/s 112 & 112A shall be reduced by the amount of unexhausted basic exemption limit and the balance shall be subjected to tax.
- (3) Rebate u/s 87A is not available in respect of tax payable @10% on LTCG u/s 112A.

The Finance (No. 2) Act, 2019 has levied an enhanced surcharge of 25% and 37%, where the total income of individuals/HUF/AOPs/BOIs exceeds Rs. 2 crores & Rs. 5 crores, respectively.

However, the enhanced surcharge has been withdrawn on tax payable at special rates under section 111A and 112A on STCG and LTCG arising from the transfer of equity share in a company or unit of an equity-oriented fund/business trust, which has been subject to STT. [Press Release dated 24-8-2019]

CLASSWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Ramdev HUF is partitioned in 03-04 and assets distributed to both Ram & Dev equally properties worth ₹50 lakhs each, the properties had been acquired by HUF in 1961 at ₹1 lakh (fmv.1.4.01 - 25,00,000). Ram sells off his property in March, 2024 for ₹ 2 crore. Calculate the amount of Capital Gains chargeable to tax in the hands of H.U.F. and Ram.

Question 2

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the financial year 2003-04 and held the same as her capital asset till 31st March, 2011. She started her real estate business on 1st April, 2011 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2024. She sold 10 flats at ₹ 30 lakhs per flat in March, 2024. The remaining 5 flats were held in stock as on 31st March, 2024.

She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2024 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2024.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for Assessment Year 2024-25 indicating clearly the reasons for treatment for each item.

[Cost Inflation Index: FY 2003-04: 109; FY 2011-12: 184; FY 2023-24: 348].

Question 3

Mr. A has entered into specified agreement with Hariom construction Co. To redevelop his old property into new property with more amenities. Property was purchased in the year 2011-12 for Rs.10,00,000 and the same is handed over to contractor for redevelopment in the year 2017-18 when the SDV of property was 20,00,000. The new property is constructed by developer and COC received in the year 2023-24 when the SDV is increased to Rs.25,00,000. Builder also gave Rs 2,00,000 as gift money to the owner.

Give the suitable answers:

1. What will be year of taxability for Mr. A if he took share in new property and what will be FVC for calculating capital gain of old property.
2. What will be year of taxability for Mr. A if he is not taking share in new property and what will be FVC for calculating capital gain of old property.
3. What will be answer of above 2 questions if instead of Mr. A property was owned by ABC Ltd.?

Question 4

X gets shares from his employer - ABC Ltd., under ESOP (whose market value at acquisition was ₹ 3,00,000) for ₹ 80,000 on 4.4.2023.

X sells such shares on 7.1.24 for ₹ 7,00,000, when its FMV was 9,00,000. Compute effects.

Describe the changes if :

Such shares were gifted on 7.1.24.

Such shares were given by way of will in P.Y. 23-24.

Question 5

Mr. P holds 500 shares of ABC Ltd., which were allotted to him on 22.4.2005 @ ₹ 30 per share. On 22nd July, 2023 ABC Ltd., made right issue to the existing shareholders at the rate of one share for every five shares held @ ₹100 per share. Mr. P, instead of exercising his right to obtain right shares, has exercised his right of renunciation by renouncing the said right entitlement in favour of Mr. Q @ ₹ 70 per right share entitlement on 4th August, 2023.

Determine the nature and amount of capital gain, if any, taxable in the hands of Mr. P.

What is the C.O.A. of the shares for Mr. Q?

Question 6

X purchases a property on April 1, 1995 for ₹ 95,000. He enters into agreement for sale of the property to A on November 1, 2005 and receives ₹10,000 as advance. A could not, however keep his promise and advance of ₹10,000 given by him is forfeited by X. Later on he gifts the property to his friend Y on May 15, 2007. The following expenses are incurred by X and Y for renewal of the property :

	Cost (₹)
Addition of two rooms by X during 1999-2000	25,000
Addition of first floor by X during 2004-05	40,000
Addition of second floor by Y during 2009-10	1,25,000

Fair market value of the property on April 1, 2001 is ₹1,15,000.

Y enters into an agreement to sell the property for ₹12,50,000 to B on April 1, 2011 after receiving an advance of ₹ 50,000. B could not pay the balance within the stipulated time of two months and Y forfeits the advance ₹ 50,000 as per agreement with B. Y ultimately finds a buyer in C to whom property is transferred for ₹ 73,75,000 on December 1, 2023. The Valuation adopted by the registration authorities for charge of stamp duty was ₹ 82,00,000 (more than 110%) which was not contested by the buyer, but as per the assessee's request, the Assessing Officer made a reference to valuation officer. The value adopted by valuation officer was ₹77,50,000/- Brokerage at 1% of sale consideration was paid by Mr. Y to Mr. H. Compute the capital gain chargeable to tax in the hands of Y.

Cost Inflation Index for Fy 01-02 : 100, Fy. 04-05 : 113, Fy. 07 - 08 : 129,
Fy 09 - 10 : 148, Fy 23-24 : 348

Question 7

Mr. A is proprietor of Chirag Enterprises having 2 units. He transferred on 1.4.2023 his unit 1 by way of slump sale for a total consideration of ₹25 Lacs (It is a F.M.V of monetary as well as non-monetary consideration received). The expenses incurred for this transfer were ₹28,000/-. His Balance Sheet as on 31.3.2023 is as under:

Liabilities	Total	Assets	Unit 1	Unit 2	Total
	₹		₹	₹	₹
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for building of Unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Bank Loan	2,00,000	Debtors	1,00,000	40,000	1,40,000
(70% for Unit I)		Other Assets	1,50,000	60,000	2,10,000
Trade Creditors (25% for Unit 1)	1,50,000				
TOTAL	21,50,000	TOTAL	17,50,000	4,00,000	21,50,000

Other Information:

- Revaluation reserve is created by revising upward the value of the building of Unit 1.
- No individual value of any asset is considered in the transfer deed.
- Other assets of Unit I include patents acquired on 1.7.2021 for ₹ 50,000/- on which no depreciation has been charged. (Depreciation rate 25%).

Compute the capital gain for the assessment year 2024-2025.

Question 8

The Government of Kerala acquires a commercial building owned by X Ltd. on March 10, 2007. X Ltd. receives first instalment of ₹ 4,20,000 of the initial compensation of ₹14,00,000 on September 25, 2010 (cost of acquisition on May 5, 2003 ₹ 6,70,000). On appeal of X Ltd. the Kerala high court increased the compensation to ₹ 26,25,000. The additional compensation ₹12,25,000 is received by X Ltd. on May 6, 2023 X Ltd. incurred litigation expenses of ₹1,15,000 to get the enhanced compensation. Find out the capital gain chargeable to the tax for the assessment year 2007-08, 2011-2012 and 2024-2025.

Question 9

Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident in December, 2023.

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening WDV of the block as on 1.4.2023 was ₹ 10,80,000.

During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2009 for ₹1,20,000. The market value of these two items as on the date of fire accident was ₹ 4,00,000.

Mr. A received the following amounts from the insurance company:

(i) Towards loss of stock	₹ 4,80,000
(ii) Towards damage of machinery	₹ 6,00,000
(iii) Towards gold chain and diamond ring	₹ 4,00,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income - tax Act, 1961.

Question 10

Mr. 'X' furnishes the following data for the previous year ending 31.3.2024:

- (a) Unlisted Equity Shares of AB Ltd., 10,000 in number were sold on 31.5.2023, at ₹ 500 for each share and transfer expenses incurred ₹ 2,00,000.
- (b) The above shares of 10,000 were acquired by 'X' in the following manner:
 - (i) Received as gift from his father on 1.6.2000 (5,000 shares) the fair market value on 1.4.2001 ₹50 per share.
 - (ii) Bonus shares received from AB Ltd. on 21.7.2005 (2,000 shares).
 - (iii) Purchased on 1.2.2004 at the price of ₹125 per share (3,000 shares).

- (c) Purchased one residential house at ₹ 37 lakhs, on 1.5.2024 from the sale proceeds of shares.
- (d) 'X' is already owning a residential house, even before the purchase of above house. You are required to compute the taxable capital gain. He has no other source of income chargeable to tax

Question 11

Ms. Usha purchases 1,000 equity shares in X Ltd., at a cost of ₹ 30 per share (brokerage 1%) in January 1996. She gets 100 bonus shares in August 2000. She again gets 1100 bonus shares by virtue of her holding on February 2006. Fair market value of the shares of X Ltd. on April 1, 2001 is ₹ 80. In January 2024, she transfers all her shares @ ₹ 200 per share (brokerage 2%).

Compute the capital gains taxable in the hands of Ms. Usha for the A.Y. 2024-25. Cost Inflation Index for F.Y. 2001-02: 100, F.Y. 2005-06: 117 & F.Y. 2023-24: 348.

Question 12

Mr. B purchased convertible debentures for ₹ 5,00,000 during August 2002. The debentures were converted into shares in September 2012. These shares were sold for ₹ 15,00,000 in August, 2023. The brokerage expenses are ₹ 50,000. You are required to compute the capital gains in case of Mr. B for the assessment year 2024-25.

Financial Year	Cost Inflation Index
2002 – 03	105
2012 – 13	200
2023 – 24	348

Question 13

Mr. Kay purchases a house property on April 10, 1992 for ₹ 65,000. The fair market value of the house property on April 1, 2001 was ₹ 2,70,000. On August 31, 2003, Mr. Kay enters into an agreement with Mr. Jay for sale of such property for ₹ 3,70,000 and received an amount of ₹ 60,000 as advance. However, as Mr. Jay did not pay the balance amount, Mr. Kay forfeited the advance. In May 2008, Mr. Kay constructed the first floor by incurring a cost of ₹ 2,35,000 Subsequently, in January 2009, Mr. Kay gifted the house to his friend Mr. Dee. On February 10, 2024, Mr. Dee sold the house for ₹ 12,00,000. CII for F.Y. 2003-04: 109; 2008-09: 137; 2023-24: 348. Compute the capital gains in the hands of Mr. Dee for A.Y.2024-25.

Question 14

Mr. Cee purchased a residential house on July 20, 2015 for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2015. He sold the house property in April 2023 for ₹ 20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2023.

What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y. 2024-25?

Question 15

Mr. Roy, aged 55 years owned a Residential House in Ghaziabad. It was acquired by Mr. Roy on 10-10-2007 for ₹ 24,00,000. He sold it for ₹ 65,00,000 on 4-11-2023. The stamp valuation authority of the State fixed value of the property at ₹ 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 ₹ 7,00,000 and deposited ₹ 3,00,000 on 10-4-2024 and ₹ 5,00,000 on 15-6-2024 in the capital gains bonds of Rural Electrification Corporation Ltd. He deposited ₹ 4,00,000 on 6-7-2024 and ₹ 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.

Cost Inflation Index for Financial Year 2007-08: 129 and Financial Year 2023-24: 348.

CLASSWORK SOLUTIONS

Answer 5

When Mr. P renounces the right entitlement in favour of Mr. Q, it results into “relinquishment of the asset” for Mr. P. The capital gain for Mr. P and the cost of acquisition for Mr. Q are calculated as follows:

Particulars	₹
Full value of consideration (100 right share entitlement x ₹ 70/ entitlement)	7,000
Less: Cost of Acquisition (STCA as h.p. < 12 months from 22-7-2023 to 4-8-2023)	
COA of right renounced	(NIL)
Taxable STCG	7,000

C.O.A. for Mr. Q

Cost of the share (paid to ABC Ltd.)	₹ 100/ share
Add: Cost of the Right (paid to Mr. P)	₹ 70/ share
	₹ 170/ share
X Number of shares	100 shares
	17,000

Answer 7

Mr. A

Computation of Capital Gains for A.Y. 2024 – 2025

Particulars	₹
Full Value of Consideration	25,00,000
Less: Expenditure in connection with transfer	(28,000)
Less: Cost of Acquisition (W.N.)	(12,50,625)
TAXABLE STCG / LTCG	12,21,375

W.N. Cost of Acquisition- Net Worth of Unit 1

Particulars	₹	₹
<u>Assets related to Unit 1</u>		
- Building (excluding revaluation reserve)	9,00,000	
- Machinery	3,00,000	
- Debtors	1,00,000	
- Other Assets (excluding Patents)	1,00,000	

- Patents (See working below)	28,125	14,28,125
<u>Less: Liabilities related to Unit 1</u>		
- Bank Loan (2,00,000 × 70%)	1,40,000	
- Trade Creditors (1,50,000 × 25%)	37,500	(1,77,500)
NET WORTH		12,50,625
Patents – WDV on 1-4-2023 (Depreciation rate 25%) Actual Cost on 1-7-2021		50,000
<u>Less: Depreciation u/s. 32 for</u>		
- P.Y. 2021-2022 (50,000 × 25%)	12,500	
- P.Y. 2022-2023 [(50,000-12,500) × 25%]	9,375	(21,875)
W.D.V. on 1-4-2023		28,125

Answer 8

P.Y. 2006-2007, A.Y. 2007-2008

Nothing shall be taxable for X Ltd. as this is the year of compulsory acquisition. Capital gain shall be taxable in the year in which the initial compensation (or any installment) is received for the first time. Since no money is received.

P.Y. 2010-2011, A.Y. 2011-2012

Particulars	₹
Full value of consideration (Always Initial compensation AWARDED/ DETERMINED)	14,00,000
<u>Less: Indexed Cost of Acquisition</u> (L.T.C.A. as h.p. > 24 months from 5-5-2003 to 9-3-2007)	
$6,70,000 \times \frac{122 (06-07)}{109 (03-04)}$	(7,49,908)
TAXABLE LTCG u/s. 112 @ 20%	6,50,092

P.Y. 2023-2024, A.Y. 2024 – 2025

Particulars	₹
Full value of consideration [26,25,000 (-) 14,00,000] (Always Enhanced compensation received)	12,25,000
<u>Less: Indexed Cost of Acquisition (Always NIL)</u>	NIL
<u>Less: Indexed Cost of Improvement (Always NIL)</u>	NIL
<u>Less: Transfer expenses</u> (Litigation expenses to get enhanced compensation)	(1,15,000)
TAXABLE LTCG u/s. 112 @ 20%	11,10,000

Answer 9

- (i) Compensation towards loss of stock: Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt. Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head “Profit and gains of business or profession”.

Note – The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head “Profits and gains of business or profession” u/s 37(1).

- (ii) Compensation towards damage to machinery: The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, ₹ 4,80,000 being the excess of written down value (i.e ₹ 10,80,000) over the insurance compensation (i.e. ₹ 6,00,000) will be assessable as a short-term capital loss.

Note – If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

- (iii) Compensation towards loss of gold chain and diamond ring: Gold chain and diamond ring are capital assets as envisaged by section 2(14). They are not “personal effects”, which alone are to be excluded. As per section 45(1A), if any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the indexed cost of acquisition of jewellery from the insurance compensation of ₹ 4,00,000.

Answer 10

Computation of taxable capital gain of Mr. 'X' for A.Y. 2024-25

Particulars	₹	₹
Date : 31.5.23 Sale consideration received on sale of 10,000 shares @ ₹ 500 each		50,00,000
Less : Transfer expenses		(2,00,000)
Net Sale Consideration (NSC)		48,00,000
Less : Indexed cost acquisition		

(a) 5,000 shares received as gift from father on 1.6.2000 Indexed cost rs $5,000 \times 50 \times \frac{348(23-24)}{100(01-02)}$ \therefore acquired prior to 1.4.01	8,70,000	
	Nil	
(b) 2,000 bonus shares received from AB Ltd Bonus shares are acquired on 21.7.2005 (i.e. after 1-4-2001 when the original shares were purchased). Hence, the cost is Nil		
(c) 3000 shares purchased on 1.2.2004 @ ₹125 per share The indexed cost is $3000 \times 125 \times \frac{348(23-24)}{109(03-04)}$	11,97,248	(20,67,248)
	G.L.T.C.G.	27,32,752
Less : Exemption under section 54F(See Note below)		
$\left[\frac{37,00,000}{48,00,000} \times 27,32,752 \right] \left[\frac{\text{Amt. invested}}{\text{N.S.C}} \times \text{G.L.T.C.G} \right]$		(21,06,496)
Taxable long term capital gain		6,26,256

Note:

Exemption under section 54F can be availed by the assessee subject to fulfillment of the following conditions :

- The assessee should not own more than one residential house on the date of transfer of the long-term capital asset ;
- The assessee should purchase a residential house within a period of 1 year before or 2 years after the date of transfer or construct a residential house within a period of 3 years after the date of transfer of the long-term capital asset.

In this case, the assessee has fulfilled the two conditions mentioned above. Therefore, he is entitled to exemption under section 54F.

HOMEWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

In which of the following situations capital gains tax liability does not arise?

- (i) Mr. A purchased gold in 1970 for ₹ 25,000. In the P.Y. 2023-24, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was ₹ 1,00,000.
- (ii) A house property is purchased by a Hindu undivided family in 1945 for ₹ 20,000. It is given to one of the family members in the P.Y. 2023-24 at the time of partition of the family. FMV on the day of partition was ₹ 12,00,000.
- (iii) Mr. B purchased 50 convertible debentures for ₹ 40,000 in 1995 which are converted in to 500 shares worth ₹ 85,000 in November 2023 by the company.

Question 2

Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the bank, to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

Question 3

Examine, with reasons, whether the following statements are True or False.

- (i) Alienation of a residential house in a transaction of reverse mortgage under a scheme made and notified by the Central Government is treated as “transfer” for the purpose of capital gains.
- (ii) Zero coupon bonds of eligible corporation, held for 14 months, will be long-term capital assets.
- (iii) Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.
- (iv) Income from growing and manufacturing tea in India is treated as agricultural income wholly.

Question 4

Mr. A converts his capital asset acquired for an amount of ₹ 50,000 in June, 2003 into stock-in-trade in the month of November, 2016. The fair market value of the asset on the date of conversion is ₹ 4,50,000. The stock-in-trade was sold for an amount of ₹ 6,50,000 in the month of September, 2023. What will be the tax treatment?

Financial year	Cost Inflation Index
2003-04	109
2016-17	264
2023-24	348

Question 5

Mr. Dinesh received a vacant site as gift from his Brother in November 2005. The site was acquired by his Brother for ₹ 7,00,000 in April 2002. Dinesh constructed a residential building during the year 2010-11 in the said site for ₹ 15,00,000. He carried out some further extension of the construction in the year 2012-13 for ₹ 5,00,000.

Dinesh sold the residential building for ₹ 55,00,000 in January 2024 but the State stamp valuation authority adopted ₹ 65,00,000 as value for the purpose of stamp duty.

Compute his long-term capital gain, for the assessment year 2024-25 based on the above information. The cost inflation indices are as follows:

Financial year	Cost Inflation Index
2002-03	105
2005-06	117
2010-11	167
2012-13	200
2023-24	348

Question 6

Mr. Kumar has purchased an agricultural land costing ₹ 6 lakh in Lucknow on 1.4.2002 and has been using it for agricultural purposes since its purchased till 1.8.2011 when the Government took over compulsory acquisition of this land. A compensation of ₹ 12 lakh was settled. The compensation was received by Mr. Kumar on 1.7.2023.

Compute the amount of capital gains taxable in the hands of Mr. Kumar.

Cost Inflation Index: 2002 - 03; 105, 2011-12; 184, 2023-24; 348

Question 7

Will your answer be any different if Mr. Kumar had by his own will sold this land to his friend Mr. Sharma? Explain.

Question 8

Will your answer be different if Mr. Kumar had not used this land for agricultural activities? Explain and compute the amount of capital gains taxable in the hands of Mr. Kumar, if any.

Question 9

Will your answer be different if the land belonged to ABC Ltd. and not Mr. Kumar and compensation on compulsory acquisition was received by the company? Explain.

Question 10

Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2005 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 sold all the shares on 01.10.2023 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02% to celebrate his 75 birthday. The cost inflation Index are as follows:

Financial year	Cost Inflation Index
2005-06	117
2023-24	348

Compute his total income and tax liability for Assessment Year 2024-25, assuming that he is having no income other than given above and opting for the old tax regime. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

Question 11

Mr. Malik owns a factory building on which he had been claiming depreciation for the past few years. It is the only asset in the block. The factory building and land appurtenant thereto were sold during the year. The following details are available:

Particulars	₹
Building completed in September, 2009 for	10,00,000
Land appurtenant thereto purchased in April, 2002 for	12,00,000
Advance received from a prospective buyer for land in May, 2003 forfeited in favour of assessee, as negotiations failed	50,000
WDV of the building block as on 1.4.2023	8,74,800
Sale value of factory building in November, 2023	8,00,000
Sale value of appurtenant land in November, 2023	40,00,000

The assessee is ready to invest in long-term specified assets under section 54EC, within specified time.

Compute the amount of taxable capital gain for the assessment year 2024-25 and the amount to be invested under section 54EC for availing the maximum exemption.

Cost inflation indices are as under:

Financial year	Cost Inflation Index
2002-03	105
2003-04	109
2023-24	348

Question 12

Mr. Martin a resident individual, sold his residential house property on 08-06-2023 for ₹ 70 lakhs which was purchased by him for ₹ 20,50,000 on 05-05-2006.

He paid ₹1 lakh as brokerage for the sale of said property. The stamp duty valuation assessed by sub registrar was ₹ 100 lakhs.

He bought another house property on 25-12-2023 for ₹ 15 lakhs.

He deposited ₹ 5 lakhs on 10-11-2023 in the capital gain bond of National Highway Authority of India (NHAI).

He deposited another ₹ 10 lakhs on 10-07-2024 in the capital gain deposit scheme with SBI for construction of additional floor of house property.

Compute income under the head "Capital Gains" for A.Y. 2024-25 as per Income-tax Act, 1961 and also income-tax payable on the assumption that he has no other income chargeable to tax.

Cost inflation index for Financial Year 2006-07: 122 and 2023-24: 348

Question 13

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2023 for ₹ 80,00,000.

The sale proceeds were to be paid in the following manner:

- (i) 20% through account payee bank draft on the date of agreement.
- (ii) 60% on the date of the possession of the property.
- (iii) Balance after the completion of the registration of the title of the property.

Mr. Jaikumar was handed over the possession of the property on 15.12.2023 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 ₹ 90,00,000 whereas on 14.01.2024 it was ₹ 91,50,000.

Mr. Sarthak had acquired the property on 01.04.2001 for ₹ 20,00,000. After recovering

the sale proceeds from Jaikumar, he purchased another residential house property for ₹ 20,00,000 on 24.3.2024.

Compute the income under the head "Capital Gains" for the Assessment Year 2024-25.

Cost Inflation Index for Financial Year(s)

2001-02- 100; 2023-24 - 348

Question 14

Mr. Suraj sold a house to his friend Mr. Ganesh on 18th September, 2023 for a consideration of ₹ 42,00,000. On the date of registration stamp duty value of the said property is ₹ 45,00,000. However, on the date of agreement stamp duty value of the said property was ₹ 44,00,000. Mr. Ganesh had paid 10% of the value of the property by way of A/c payee cheque at the time of agreement. Assume value of land is 70% of the total value of the property.

What are the tax implications in the hands of Mr. Suraj and Mr. Ganesh for the assessment year 2024-25? Mr. Suraj had purchased the land on 19th February, 2013 for ₹9,20,000 and completed the construction of house on 18th January, 2022 for ₹ 15,50,000.

Cost Inflation Index: F.Y. 2012-13 – 200; F.Y. 2020-21 – 301; F.Y. 2023-24- 348

Question 15

Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2004. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2006-07.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.08.2023 for sale of this house at ₹ 790 lakhs. She received ₹ 80 lakhs as advance by cash payment. The stamp duty value on the date of agreement was ₹ 835 lakhs. The sale deed was executed and registered on 14-1-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 870 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following investments:

- (i) Acquired a residential house at Delhi for ₹ 130 lakhs on 31.5.2024.
- (ii) Acquired a residential house at UK for ₹ 290 lakhs on 23.3.2023.

(iii) Subscribed to NHA capital gains bond (approved under section 54EC) for ₹ 47 lakhs on 29-3-2024 and for ₹ 50 lakhs on 12-5-2024.

Compute the income chargeable under the head 'Capital Gains'. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2004-05 – 113; F.Y. 2006-07 – 122; F.Y. 2023-24 – 348.

Question 16

M/s Axel Ltd. has two industrial undertakings. Unit-I is engaged in the production of television sets and Unit-II is engaged in the production of refrigerators. The company has, as part of its restructuring program, decided to sell Unit-II as a going concern by way of slump sale for Rs. 260 lakhs to a new company called M/s Pixel Ltd. in which it holds 85% equity shares. The following is the extract of the balance sheet of M/s Axel Ltd. as on 31-03-2023 [i.e. opening balance sheet of previous year 2023-24]:

Particulars	Unit - I	Unit - II
	(₹ In lakhs)	(₹ In lakhs)
Fixed Assets	112	158
Debtors	88	67
Inventories	60	23
Liabilities	33	45

Paid-up share capital : ₹ 231 lakhs

General Reserve : ₹ 160 lakhs

Share Premium : ₹ 39 lakhs

Revaluation Reserve : ₹ 105 lakhs

The company had set up Unit-II on 01-04-2008. The WDV of the block of assets for tax purpose as on 31-03-2023 is ₹ 150 lakhs of which ₹ 60 lakhs is attributable to Unit-II.

Determine what would be the tax liability of M/s Axel Ltd. on account of Slump Sale.

Question 17

The WDV of the block of assets as on 01-04-2023 was ₹ 5,00,000. An asset of the same block was acquired on 11-05-2023 for ₹ 3,00,000. There was a fire on 28-09-2023 and the assets in the block were destroyed by fire. The assessee received a sum of ₹ 11,00,000 from the insurance company.

(1) Compute the amount of capital gains assuming:

(a) All the assets were destroyed by fire

(b) Part of the block was destroyed by fire

- (2) What would be your answer if assessee received ₹ 6,00,000 from insurance company, assuming:
- (a) All the assets were destroyed by fire
 - (b) Part of the block was destroyed by fire

Question 18

Mr. Bharat sold a house to his friend Mr. Vishal on 1st November, 2023 for a consideration of ₹ 25,00,000. The sub-registrar refused to register the document for the said value, as according to him, stamp duty had to be paid on ₹ 45,00,000, which was the guideline value (SDV).

Mr. Bharat preferred an appeal to the Revenue Divisional Officer, who fixed the value of the house as ₹ 32,00,000 (₹ 22,00,000 for land and the balance for the building portion). The differential stamp duty was paid, accepting the said value determined.

What are the tax implications in the hands of both Mr. Bharat and Mr. Vishal for the A.Y. 2024-25?

Mr. Bharat had purchased the land on 1st June, 2013 for ₹ 5,00,000 and completed the construction of the house on 1st December, 2021 for ₹ 14,00,000. (CII for F.Y. 2013-14: 220, F.Y. 2020-21: 301, F.Y. 2023-24: 348).

Question 19

Mr. A, who transfers land & building on 02-01-2024, furnishes the following information:

- (a) Net consideration received ₹ 18,00,000.
- (b) Value adopted by stamp valuation authority, which was not contested by Mr. A, ₹ 22,00,000.
- (c) Value ascertained by Valuation Officer on reference by the A.O. ₹ 25,00,000.
- (d) This land was distributed to Mr. A on the partial partition of his HUF on 01-04-2001. FMV of the land as on 01-04-2001 was ₹ 1,10,000.
- (e) A residential building was constructed on the above land by Mr. A at a cost of ₹ 3,20,000. Construction of this building was completed on 01-12-2005 (during the F.Y. 2005-06).
- (f) Brought forward unabsorbed short-term capital loss (incurred on sale of shares during the F.Y. 2015-16) - ₹ 75,000

Mr. A seeks your advice as to the amount to be invested in NHAI/RECL bonds so as to be exempt from clutches of capital gain tax.

(Cost Inflation Index for the F.Y. 2001-02: 100, F.Y. 2005-06: 117, F.Y. 2023-24:-348).

Question 20

Mr. Abdul sells (non-listed) shares in a private sector company on July 11, 2023 for ₹ 8,05,000 (indexed cost of acquisition: ₹ 3,03,360, expenses on sale: ₹ 5,000). On July 10, 2023, he owns one residential house property. To get the benefit of exemption u/s 54F, he deposits on May 30, 2024 ₹ 6,00,000 in capital gains deposit scheme account. By withdrawing from the said account, he constructs a new residential house property at Rajkot on July 6, 2026, for ₹ 4,80,000. Ascertain:

- The amount of capital gain chargeable to tax for the A.Y. 2024-25.
- Tax treatment of the unutilised amount in capital gains deposit scheme account.
- What Mr. Abdul has to do to in order to ensure that the exemption u/s 54F is never taken back.

Question 21

Mr. X gives the following information in respect of transfer of Urban Agricultural Land (he does not own any residential house property):

Date of Transfer of Urban Agricultural Land	:	July 10, 2023
Date of Purchase of Urban Agricultural Land	:	June 13, 2003
Sale Consideration of Urban Agricultural Land	:	₹ 36,25,000
Expenses on Transfer of Urban Agricultural Land	:	₹ 25,000
Cost of Acquisition of Urban Agricultural Land	:	₹ 4,75,000

To get the exemption u/s 54F, a residential house property is purchased by X at Pune:

Date of Purchase of Pune House Property	:	Oct. 12, 2023
Cost of Acquisition of Pune House Property	:	₹ 28,00,000

X transfers his house property at Pune:

Sale Consideration of Pune House Property	:	₹ 30,00,000
Date of Transfer of Pune House Property	:	June 20, 2025

Find out the capital gain chargeable to tax in the hands of Mr. X for different A.Y.s.

Question 22

Compute the amount of capital gains in the following cases:

- Mr. A commenced business on 01-04-2007. He sold this business on 01-04-2023 and received, ₹ 5,00,000 towards such goodwill.
- Mr. B had acquired a business from Mr. C on 01-04-2009 by paying ₹ 2,83,500 (Indexed COA=5,21,027) towards goodwill. He sold this business on 01-04-2023 and received ₹ 10,83,000 towards goodwill.

- (C) Mr. D is staying in a rented flat since July, 2002. The land lord paid ₹ 10,00,000 to Mr. E as a compensation for surrender of tenancy, in June, 2023.
- (D) Mr. F purchased tenancy rights on 01-07-2007 for ₹ 2,50,000 (ICOA=527132). He transferred the tenancy rights on 01-06-2023 for ₹ 11,50,000.

HOMEWORK SOLUTIONS

Answer 1

We know that capital gains arise only when we transfer a capital asset. The liability of capital gains in the situations given above is discussed as follows:

- (i) As per the provisions of section 47(iii), transfer of a capital asset under a gift is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (ii) As per the provisions of section 47(i), transfer of a capital asset (being in kind) on the total or partial portion of Hindu undivided family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (iii) As per the provisions of section 47(x), transfer by way of conversion of bonds or debentures, debenture stock or deposit certificate in any form of a company into shares or debentures of that company is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

Answer 2

Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not be taxable.

However, capital gains tax liability would be attracted at the stage of alienation of the mortgaged property by the bank for the purposes of recovering the loan.

Answer 3

- (i) False: As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as “transfer” for the purpose of capital gains.
- (ii) True: Section 2(42) defines the term ‘short-term capital asset’. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be

treated as a short-term capital asset. Consequently, such bond held for more than 12 months will be a long-term capital asset.

- (iii) True: As per section 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or a public sector company, or Scheduled Bank or on after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.
- (iv) False: Only 60% of the income derived from the sale of tea grown and manufactured by the seller in India is treated as agricultural income and the balance 40% of the income shall be non-agricultural income chargeable to tax (Rule 8 of Income-tax Rules, 1962].

Answer 4

The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e. P.Y. 2016-17) but will be taxable only in the year in which the stock-in-trade is sold (i.e. P.Y. 2023-24). Profits from business will also be taxable in the year of sale of the stock-in-trade (P.Y. 2023-24).

The long-term capital gains and business income for the A.Y. 2024-25 are calculated as under:

Particulars	₹	₹
Profits and Gain from Business or Profession		
Sale proceeds of the stock-in-trade	6,50,000	
Less: Cost of the stock-in-trade (FMV on the date of conversion)	(4,50,000)	2,00,000
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Indexed cost of acquisition (₹ 50,000 × 264/109)	(1,21,101)	3,28,899

Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered only, since it was held as a capital asset till then only.

Answer 5

Computation of long term capital gain of Mr. Dinesh for the A.Y. 2024-25

Particulars	₹	₹
Full value of consideration (Note 1)		65,00,000
Less: Indexed cost of acquisition – land (₹ 7,00,000 × 348/117) (Note 2 & 3)	20,82,051	
Indexed Cost of acquisition – building (₹ 15,00,000 × 348/167) (Note 3)	31,25,749	
Indexed Cost of improvement-building (₹ 5,00,000 × 348/200)	8,70,000	(60,77,800)
Long-term capital gain		4,22,200

Notes:

- As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted by the Stamp Valuation Authority, such value adopted by the Stamp Valuation Authority shall be deemed to be the full value of the consideration received or accruing as a result of such transfer. Accordingly, full value of consideration will be ₹ 65 lakhs in this case since the stamp duty value exceeds 110% of the sales consideration.
- Since Dinesh has acquired the asset by way of gift, therefore, as per section 49(1), cost of the asset to Dinesh shall be deemed to be cost for which the previous owner acquired the asset i.e., ₹ 7,00,000, in this case.
- Indexation benefit is available since both land and building are long-term capital assets. However, as per the definition of indexed cost of acquisition under clause (iii) of Explanation below section 48, indexation benefit for land will be available only from the previous year in which Mr. Dinesh first held the land i.e., P.Y. 2005-06.
Alternative view: In the case of CIT v. Manjula J Shah 16 Taxmann 42 (Bom.), the Bombay High court held that indexation cost of acquisition in case of gifted asset can be computed with reference to the year in which the previous owner first held the asset. As per this view, the indexation cost of acquisition of land would be ₹ 23,20,000 and long term capital gain would be ₹ 1,84,251.

Answer 6

In the given problem, compulsory acquisition of an urban agricultural land has taken place and the compensation is received after 1.4.2004. This land had also been used for at least 2 years by the assessee himself for agricultural purposes. Thus, as per section

10(37), entire capital gains arising on such compulsory acquisition will be fully exempt and nothing is taxable in the hands of Mr. Kumar in the year of receipt of compensation i.e. A.Y. 2024-25.

Answer 7

As per section 10(37), exemption is available if compulsory acquisition of urban agricultural land takes place. Since the sale is out of own will and desire, the provisions of this section are not attracted and the capital gains arising on such sale will be taxable in the hands of Mr. Kumar, since urban agricultural land is a capital asset u/s 2(14).

Answer 8

As per section 10(37), exemption is available only when 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. If the assessee has not used it for agricultural activities, the provisions of this section are not attracted and the capital gains arising on such compulsory acquisition will be taxable in the hands of Mr. Kumar in the year of receipt of compensation i.e. A.Y. 2024-25.

Particulars	Amount (₹)
Sales consideration	12,00,000
Less: Cost of acquisition $\left(6,00,000 \times \frac{184(11-12)^*}{105(02-03)}\right)$	(10,51,429)
Long term capital Gain	1,48,571

* Year of compulsory acquisition

Answer 9

Section 10(37) exempts capital gains arising to an individual or a HUF from transfer of agricultural land by way of compulsory acquisition. If the land belongs to ABC Ltd., a company, the provisions of this section are not attracted and the capital gains arising on such compulsory acquisition will be taxable in the hands of ABC Ltd.

Answer 10

Computation of total income and tax liability of Mr. Mithun for A.Y. 2024-25.

Particulars	(₹)
Long term capital gains on sale of original shares	
Gross sale consideration (100 × ₹ 4,000)	4,00,000
Less: Brokerage @1%	(4,000)
Net sale consideration	3,96,000
Less: Cost of acquisition (100 × ₹ 2,000) (Refer note 2)	(2,00,000)
Long term capital gains u/s 112A	1,96,000
Short term capital gains on sale of bonus shares	
Gross sale consideration (100 × ₹ 4,000)	4,00,000
Less : Brokerage @ 1%	(4,000)
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares	(NIL)
Short term Capital Gains	3,96,000
Total Income	5,92,000
Tax Liability	BASIC TAX (A+B)
	24,000
Add: Health and education cess @4%	960
Tax payable	24,960

Notes:

- Long-term capital gains exceeding ₹ 1 lakh on sale of original shares through a recognized stock exchanges (STT paid at the time of acquisition and sale) is taxable under section 112A at a concessional rate of 10%, without indexation benefit.
- Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of
 - Cost of acquisition i.e., ₹ 1,000 per share and
 - Lower of
 - Fair market value of such asset as at 31.1.18 i.e., ₹ 2,000 per share and
 - Full value of consideration i.e., ₹ 4,000 per share.
 So, the cost of acquisition of original share is ₹ 2,000 per share.
- Since bonus shares are held for less than 12 months before sale, the gain arising there from is a short-term capital gain chargeable to tax@15% as per section 111A after adjusting the unexhausted basic exemption limit. Since Mr. Mithun is over 60 years of age, he is entitled for a higher basic exemption limit of ₹ 3,00,000 for A.Y. 2024-25.

- (4) Brokerage paid is allowable since it is an expenditure incurred wholly and exclusively in connection with the transfer. Hence, it qualifies for deduction under section 48(i).
- (5) Cost of bonus shares will be Nil as such shares are allotted after 1.04.2001.
- (6) Securities transaction tax is not allowable as deduction.

Answer 11

Computation of taxable capital gain of Mr. Malik for A.Y. 2024-25

Particulars	₹	₹
Factory building		
Sale price of building	8,00,000	
Less: WDV as on 1.4.2023	(8,74,800)	(-)74,800
Land appurtenant to the above building		
Sale value of land	40,00,000	
Less: Indexed cost of acquisition (₹ 11,50,000 × 348/105)	(38,11,429)	1,88,571
Long-term capital gains on sale of land		1,13,771
Chargeable long term capital gain		

Investment under section 54EC 3,00,000 (in a multiple of 000)

In this case, both land and building have been held for more than 24 months and hence, are long-term capital assets. Exemption under section 54EC is available if the capital gains arising from transfer of a long-term capital asset, being land or building or both are invested in long-term specified assets like bonds of National Highways Authority of India and Rural Electrification Corporation Ltd. or bonds notified by Central Government in this behalf, within 6 months from the date of transfer. As per section 54EC, the amount to be invested for availing the maximum exemption is the net amount of capital gain arising from transfer of long-term capital asset, which is ₹ in this case.

Notes:

- Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited i.e. ₹ 12,00,000 – ₹ 50,000 = ₹ 11,50,000. It may be noted that in cases where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head “Income from Other Sources” and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains.

2. Factory building on which depreciation has been claimed, is a depreciable asset. Profit / loss arising on sale is deemed to be short-term capital gain/loss as per section 50, and no indexation benefit is available.
3. Land is not a depreciable asset, hence section 50 will not apply. Being a long-term capital asset (held for than 24 months), indexation benefit is available.
4. As per section 74, short term capital loss can be set-off against any income under the head “Capital gains”, long-term or short-term. Therefore, in this case, short-term capital loss of ₹ 74,800 can be set-off against long-term capital gain of ₹ 1,88,571.

Answer 12

Computation of income under the head “Capital Gains” of

Mr. Martin for A.Y. 2024-25

Particulars	₹	₹
Long-term capital gain		
Full value of consideration	1,00,00,000	
[As per section 50C, in case the actual sale consideration (i.e., Rs. 70 lakhs, in this case) is less than the stamp duty value (i.e., Rs. 100 lakhs, in this case) assessed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration since it exceeds 110% of the sale consideration)		
Less: Expenses in connection with transfer (brokerage paid for sale of property)	(1,00,000)	
	99,00,000	
Less: Indexed cost of acquisition [Rs. 20,50,000 x 348/122]	(58,47,541)	40,52,459
Less: Exemption under section 54:		
- Purchase of new residential house property within two years from the date of sale of residential house	15,00,000	
- Deposit in Capital Gains Account Scheme on or before the due date of filing of return of income u/s 139(1) for construction of additional floor on such house property	10,00,000	
	25,00,000	

Exemption under section 54EC: - Investment in capital gains bond of NHAI within 6 months from the date of transfer (i.e., before 8.12.2023)		
	5,00,000	(30,00,000)
Taxable Capital Gains/Total Income		10,52,459
Total Income (rounded off) u/s 288A		10,52,460

Computation of tax liability for A.Y. 2024-25

Particulars	₹
Tax on ₹ 8,02,460 @20%	1,60,492
[i.e. long term capital gain less basic i.e. 10,52,460 (-) Exemption limit (₹ 2,50,000)] = 8,02,460	
Add: Health and education cess @ 4%	6,420
Tax payable	
Tax payable (rounded off) u/s 288B	1,66,910

Note: Exemption under section 54 is available in respect of reinvestment of capital gains on sale of residential house in one residential house in India. In this case, exemption would be available for amount invested in purchase of new residential house and amount deposited for construction of additional floor in the same house, since they together constitute one residential house.

Answer 13

Computation of income chargeable under the head “Capital Gains” for A.Y. 2024-25.

Particulars	₹
Capital Gains on sale of residential house	
Actual sale consideration	₹ 80 lakhs
Value adopted by Stamp Valuation Authority	₹ 90 lakhs
Full value of sale consideration [Higher of the above]	90,00,000
[As per section 50C, where the actual sale consideration declared by the assessee on the date is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is	

different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since 20% of Rs. 80 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]	
Less: Indexed cost of acquisition of residential house Rs. 20 lakhs x 348/100]	(69,60,000)
Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]	20,40,000
Less: Exemption u/s 54	(20,00,000)
The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India within one year before or two years after the date of transfer of original asset.	
Long term capital gains chargeable to tax	40,000

Answer 14

In the hands of the seller, Mr. Suraj

As per section 50C, where the consideration received or accruing as a result of transfer of land or building or both, is less than the value adopted or assessed or assessable by the stamp valuation authority, the value adopted or assessed or assessable by the stamp valuation authority shall be deemed to be the full value of consideration received or accruing as a result of transfer.

However, where the date of registration and date of agreement are not the same and part or whole of the consideration is received by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the date of agreement, then stamp duty value on the date of agreement may be taken to be the full value of consideration.

Further, where the stamp duty value on the date of agreement or registration, as the case may be, does not exceed 110% of the amount of consideration received or receivable then the consideration so received would be deemed to be the full value of the consideration.

In the present case, since Mr. Suraj has received 10% of the consideration by way of A/c payee cheque on the date of agreement, the stamp duty value of ₹ 44,00,000 on the date of agreement would be taken for the purpose of computing full value of consideration.

Further, since the stamp duty of land and building of ₹ 44,00,000 does not exceed ₹ 46,20,000 i.e., 110% of ₹ 42,00,000, the consideration received i.e., ₹ 42,00,000 in respect of land and building would be deemed to be the full value of consideration.

In the given problem, land has been held for a period exceeding 24 months and building for a period less than 24 months immediately preceding the date of transfer. So land is a long-term capital asset, while building is a short-term capital asset.

Accordingly, capital gains would be determined in the following manner:

Particulars	₹
Long term capital gain on sale of land	
Consideration received or accruing as a result of transfer of land [70% of ₹ 42,00,000]	29,40,000
Less: Indexed cost of acquisition ₹ 9,20,000 x 348/200	(16,00,800)
Long-term capital gain (A)	13,39,200
Short-term capital loss on sale of building	
Consideration received or accruing from transfer of building [30% of ₹ 42,00,000]	12,60,000
Less: Cost of acquisition	(15,50,000)
Short term capital loss (B)	(2,90,000)

As per section 70(2), short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be ₹ 10,49,200 (i.e., ₹ 13,39,200 - ₹ 2,90,200). The same would be taxable @ 20% under section 112, after adjusting un-exhausted basic exemption limit, if any, against such long term capital gain.

In the hands of the buyer Mr. Ganesh

As per section 56(2)(x), where any person receives from a non-relative, any immovable property for a consideration which is less than the stamp duty value on the date of agreement or date of registration as the case may be, and the difference between actual consideration and stamp duty value so considered is more than the higher of ₹ 50,000 or 10% of the consideration so received, then the difference between such value and actual consideration of such property is chargeable to tax as income from other sources.

Where the date of registration and date of agreement are not the same and part or whole of the consideration is paid by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the date of agreement, then stamp duty value on the date of agreement may be taken for the purpose of determining income taxable under the head "Income from other sources".

Since in the present case, Mr. Ganesh has paid 10% of the consideration by way of A/c payee cheque, the stamp duty value on the date of agreement has to be taken. Further, since the difference of ₹ 2,00,000 is not more than ₹ 4,20,000 being higher of ₹ 50,000 and ₹ 4,20,000 (10 % of ₹ 42,00,000), no income would be chargeable to tax as income from other sources in the hands of Mr. Ganesh.

Answer 15

Computation of income chargeable under the head “Capital Gains” for A.Y. 2024 -25

Particulars	₹	₹
	(in lakhs)	(in lakhs)
Capital Gains on sale of residential building		870.00
Actual sale consideration ₹ 790 lakhs		
Value adopted by Stamp Valuation Authority ₹ 870 lakhs		
Gross Sale consideration		
[Where the actual sale consideration declared by the assessee on the date is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		
However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement.		
In this case, since advance of ₹ 80 lakh is received by cash, stamp duty value on the date of agreement cannot be adopted as the full value of consideration. Stamp duty value on the date of registration would be considered for determining the full value of consideration, since such value exceeds 110% of ₹ 790 lakhs]		
Less: Brokerage@1% of sale consideration		
(1% of ₹ 790 lakhs)		(7.90)
Net Sale consideration		862.10

Less: Indexed cost of acquisition		
- Cost of vacant land, ₹ 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 348/113]		(271.01)
- Construction cost of residential building (₹ 100 lakhs × 348/122)		(285.25)
Long-term capital gains before exemption		305.84
Less: Exemption under section 54		(130.00)
The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of the residential house acquired at Delhi and not in respect of the residential house in UK		
Less: Exemption under section 54EC		(50.00)
Amount deposited in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.7.2024), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of ₹ 50 lakhs, whether such investment is made in the current financial year or subsequent financial year.		
Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 97 lakhs, even if the both the investments are made on or before 13.7.2024 (i.e., within six months after the date of transfer).		
Long term capital gains chargeable to tax		125.84

Note: Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head “Income from other sources”, in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition. Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain.

Answer 16

Name of the Assessee: M/s Axel Ltd.

Status: Indian Company - Resident

PAN: _____

P.Y. : 2023-24

A.Y. : 2024-25

Computation of Capital Gains from Slump Sale:

Particulars	Amount
	(₹ In lakhs)
Full Value of Consideration (Lumpsum Sale Consideration)	2,60,00,000
Less: Cost of Acquisition (Net Worth as per section 50B) - (Note 1)	(1,05,00,000)
Long-term capital gains	1,55,00,000

Note:

(1) Computation of Net Worth of Unit - II as per section 50B:

Particulars	Amount
WDV of the Block of Fixed Assets	60,00,000
Debtors	67,00,000
Inventories	23,00,000
Total Assets	1,50,00,000
Less: Outside Liabilities	(45,00,000)
Net Worth	1,05,00,000

(2) The capital gain arising on sale of Unit - II shall be treated as long-term capital gain because it is held by M/s Axel Ltd. for more than 36 months before its transfer. However, benefit of indexation shall not be granted as per the provisions of section 50B.

(3) As per the provisions of section 50B, any change in the book values of assets as appearing in the balance sheet on account of revaluation of such assets shall be ignored for the purposes of computing the Net Worth.

Hence, the Revaluation Reserve amounting to ₹ 105 lakhs appearing in the question would be in relation to the book value of the fixed assets and not in relation to the WDV of such assets, therefore the revaluation figure is to be ignored.

(4) Further, the values of Paid-up share capital, General Reserve & Share Premium as given in the question are to be ignored while computing the amount of net worth as the net worth is to be computed by following the method prescribed u/s 50B only.

Answer 17

(1) (a) If all the assets in the block are destroyed by fire:

Particulars	₹
WDV at the beginning of the year	5,00,000
Add: Additions during the year	3,00,000
Value of the Block (Deemed COA as per section 50)	8,00,000
Less: Insurance Claim received from the insurance company	(11,00,000)
[Deemed FVC as per section 45(1A)]	
Short-term capital gains	(3,00,000)

Note:

Since, all the assets in the block were destroyed by fire and the money received from the insurance company is more than the value of block, the difference of ₹ 3,00,000 is to be considered as a short-term capital gains.

(1) (b) **If only part of the block was destroyed by fire:**
Computations shall be made in the same manner as made above in (1)(a). However, in such case, the block will continue to exist and the WDV of the block shall be taken to be NIL in the next year.

(2) (a) **If all the assets in the block are destroyed by fire:**

Particulars	₹
WDV at the beginning of the year	5,00,000
Add: Additions during the year	3,00,000
Value of the Block (Deemed COA as per section 50)	8,00,000
Less: Insurance Claim received from the insurance company	(6,00,000)
[Deemed FVC as per section 45(1A)]	
Short-term capital loss	2,00,000

Note: Since, all the assets in the block were destroyed by fire, the difference of Rs. 2,00,000 between the value of block and the money received from insurance company, is to be considered as a short-term capital loss.

(2) (b) If only part of the block was destroyed by fire:

Particulars	₹
WDV at the beginning of the year	5,00,000
Additions during the year	3,00,000
Value of the Block	8,00,000
Less: Money Received from the Insurance Company	(6,00,000)
WDV for the purpose of charging depreciation	2,00,000
Less: Depreciation @ 15% (Assumed)	(30,000)
WDV as on 31st March, 2024	1,70,000

Note:

Since the block does not cease to exist as there are assets still remaining in the block with a value of ₹ 2,00,000. The remaining value shall qualify for charge of depreciation and shall not be treated as short-term capital loss in the hands of the assessee.

Answer 18

Tax treatment in the hands of the seller, Mr. Bharat:

As per the provisions of section 50C, where the value adopted or assessed or assessable by the stamp valuation authority of land or building or both, is more than 110% of consideration received or accruing as a result of transfer, the value adopted or assessed or assessable by the stamp valuation authority shall be deemed to be the full value of consideration received or accruing as a result of transfer.

Further, where the assessee appeals against the stamp valuation and the value is reduced in appeal by the appellate authority (Revenue Divisional Officer, in this case), such value will be regarded as the consideration received or accruing as a result of transfer.

In the instant case, land has been held for a period exceeding 24 months and building for a period less than 24 months immediately preceding the date of their transfer. So land is a long-term capital asset, while building is a short-term capital asset.

Computation of 'Capital Gains' in the hands of Mr. Bharat for the A.Y. 2024-25:

Particulars	₹
Long-term capital gain on sale of Land:	
Full Value of Consideration (SDV determined by the Revenue Divisional Officer, as per the above discussion)	22,00,000
Less: Indexed Cost of Acquisition [₹ 5,00,000 × 348/220]	(7,90,909)
Long-term capital gain (A)	14,09,091

Short-term capital loss on sale of Building:	
Full Value of Consideration (SDV determined by the Revenue Divisional Officer, as per the above discussion)	10,00,000
Less: Cost of Acquisition	(14,00,000)
Short-term capital loss (B)	(4,00,000)
Taxable long-term capital gains (A) + (B)	10,09,091

Tax treatment in the hands of the buyer, Mr. Vishal:

As per section 56(2)(x), where any person, receives during the P.Y., from a non-relative, any immovable property for a consideration which is less than the SDV (or the value as reduced by the appellate authority, as in this case) by an amount exceeding 10% of actual consideration or ₹ 50,000 whichever is higher, then the difference between such SDV and the actual consideration of such immovable property is chargeable to tax as the income from 'Other Sources' of the recipient. Therefore, ₹ 7,00,000 [i.e. ₹ 32,00,000 (-) ₹ 25,00,000] would be taxable as income from 'Other Sources' u/s 56(2)(x) in the hands of Mr. Vishal.

Answer 19

Name of the Assessee: Mr. A

Status: Individual – ROR

PAN: _____

P.Y. : 2023-24

A.Y. : 2024-25

Computation of Income under the head 'Capital Gains':

Particulars	₹
Full Value of Consideration - (Note 1 & 2)	22,00,000
Less: Expenses on transfer	(NIL)
Net Consideration	22,00,000
Less: Indexed Cost of Acquisition:	
Land: [₹ 1,10,000 (x) 348/100] - (Note 3)	(3,82,800)
Building: ₹ 3,20,000 (x) 348/117]	(9,51,795)
Long-term capital gains	8,65,405
Less: Set-off of Brought forward short-term capital loss of the F.Y. 2015-16 - (Note 4)	(75,000)
Balance long-term capital gains (to be invested in Bonds of NHAI/RECL) - (Note 5)	7,90,405

Note:

- (1) As per the provisions of section 50C, where the consideration received or accruing as a result of transfer of any land or building or both, is less than the SDV adopted or assessed or assessable by the Stamp Valuation Authority and stamp duty exceed 110% old actual consideration and the same is not challenged by the assessee, then, such SDV so adopted or assessed or assessable, shall be deemed to be the full value of the consideration received or accruing as a result of such transfer. Accordingly, the full value of consideration shall be ₹ 22,00,000 in this case.
- (2) Further, as per section 50C, where the valuation is referred by the A.O. (AO) to Valuation Officer (VO) and the value ascertained by such VO exceeds the SDV adopted or assessed or assessable by the Stamp Valuation Authority, then, the SDV so adopted or assessed or assessable shall only be taken as the full value of the consideration received or accruing as a result of the transfer. Since the value as ascertained by the VO (i.e. ₹ 25,00,000) is higher than the SDV adopted by the Stamp Valuation Authority (i.e. ₹ 22,00,000), the full value of consideration in this case is ₹ 22,00,000.
- (3) As per the provisions of section 49(1), cost of land which is acquired by the member on partition of HUF is the cost to the previous owner (i.e. HUF). Since date and cost of acquisition to the previous owner are not given, FMV as on 01-04-2001 is taken as the cost and accordingly indexed.
- (4) Brought forward short-term capital loss can be set-off against any capital gains i.e. short-term as well as long-term capital gains, for eight A.Y.s immediately following the A.Y. for which such loss was first computed. Hence, the short-term capital loss for the F.Y. 2015-16 (A.Y. 2016-17) amounting to ₹ 75,000 has been adjusted against the long-term capital gain computed during the F.Y. 2023-24 (A.Y. 2024-25).
- (5) As per section 54EC, an assessee can avail exemption in respect of capital gains arising on transfer of any long-term capital asset, if such capital gains are invested in the bonds of NHAI or RECL redeemable after 3 years. However, such investment is required to be made within a period of 6 months from the date of transfer of the original asset. The exemption shall be the amount of capital gain or the amount of such investment made, whichever is less.

Answer 20

(a) **The amount of capital gain chargeable to tax for the A.Y. 2024-25.**

Name of the Assessee: Mr. Abdul

Status: Individual - ROR

PAN: _____

P.Y. : 2023 - 24

A.Y. : 2024-25

Computation of Income under the head 'Capital Gains':

Particulars	₹
Full Value of Consideration	8,05,000
Less: Expenses on transfer	(5,000)
Net Consideration	8,00,000
Less: Indexed Cost of Acquisition	(3,03,360)
Gross long-term capital gains	4,96,640
Less: Exemption u/s 54F -	
[₹ 6,00,000 / ₹ 8,00,000 (x) ₹ 4,96,640]	(3,72,480)
Taxable long-term capital gains	1,24,160

(b) **Tax treatment of the unutilised amount in capital gains deposit scheme account.**

₹ 4,80,000 was utilised out of the capital gains deposit scheme account to construct a residential house property within the prescribed time limit of 3 years from the date of transfer. However, ₹ 1,20,000 could not be utilised and this amount remains unutilised in the said account on the expiry of 3 years from the date of transfer.

Hence, amount of exempt long-term capital gains i.e. ₹ 74,496 [₹ 1,20,000 / ₹ 6,00,000 (x) 3,72,480] which relates to ₹ 1,20,000 shall be chargeable to tax as long-term capital gain after the expiry of 3 years from date of transfer of shares. Consequently, the said amount shall be taxable in the P.Y. 2026-27 i.e. A.Y. 2027-28.

(c) If Mr. Abdul sells the new house at Rajkot within 3 years from its date of acquisition, then ₹ 2,97,984 [i.e. ₹ 3,72,480 (-) ₹ 74,496 being exemption u/s 54F] shall be treated as long-term capital gain of the year in which such house is sold.

Further, if Mr. Abdul purchases any other residential house within a period of 2 years from the date of transfer of shares or constructs any other residential within a period of 3 years from the date of transfer of shares, then ₹ 2,97,984 [i.e. ₹ 3,72,480 (-) ₹ 74,496 being exemption u/s 54F] shall be treated as long-term capital gain of the year in which another house is purchased or constructed.

Hence, in order to ensure that the exemption u/s 54F is never taken back, Mr. Abdul has to ensure that he does not sell the new residential house property acquired

by him at Rajkot within 3 years from the date of its acquisition. Further, he has to also ensure that he does not purchase another house property within a period of 2 years from the date of transfer of original asset or does not construct another house property within a period of 3 years from the date of transfer of original asset.

Answer 21

Name of the Assessee: Mr. X

Status: Individual - ROR

PAN: _____

P.Y. : 2023-24

A.Y. : 2024-25

Computation of Income under the head 'Capital Gains':

Particulars	₹
Full Value of Consideration (Sale Consideration)	36,25,000
Less: Expenses on transfer	(25,000)
Net Sale Consideration	36,00,000
Less: Indexed Cost of Acquisition - [₹ 4,75,000 (x) 348/109]	(15,16,514)
Gross long-term capital gain	(20,83,486)
Less: Exemption u/s 54F:	
[Amount of investment in new residential house property (x) Amount of long-term capital gain (÷) Net Consideration]	(16,20,489)
[i.e. ₹ 28,00,000 (x) ₹ 20,83,486 (÷) ₹ 36,00,000]	
Long-term capital gain	4,62,997

Note:

If the assessee transfers the new residential house property within a period of 3 years from the date of its acquisition then, the long-term capital gain exempted u/s 54F shall be revoked. In such case, the exemption granted u/s 54F shall be deemed to be the long-term capital gains for the P.Y. in which the new residential house property is transferred by the assessee.

Since, Mr. X has transferred the new residential house property at Pune within 3 years from the date of its purchase, hence, the exemption granted u/s 54F, shall be revoked.

Computation of capital gains for the A.Y. 2026-27:

Particulars	₹
Full Value of Consideration of house at Pune	30,00,000
Less: Cost of Acquisition of the house at Pune	(28,00,000)
Short-term capital gain on transfer of Pune house	2,00,000
Long-term capital gain - (as the new residential house property at Pune is transferred within 3 years from the date of its purchase, exemption u/s 54F shall be taken back)	16,20,489

Answer 22

Computation of Capital Gains:

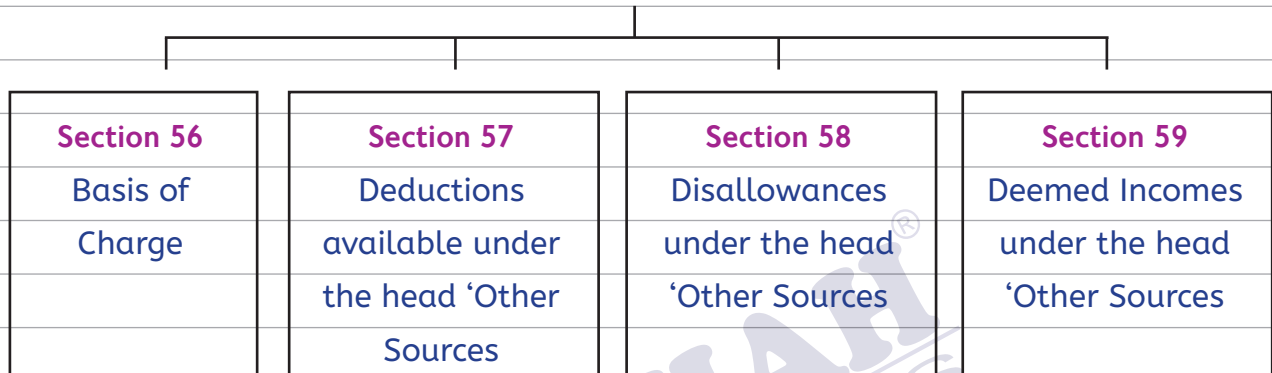
Particulars	Case A	Case B	Case C	Case D
FVC (Sale Consideration)	5,00,000	10,83,000	10,00,000	11,50,000
Less: Expenses on transfer				
Net Sale Consideration	5,00,000	10,83,000	10,00,000	11,50,000
Less: Indexed Cost of Acquisition - (Note)	(NIL)	(5,21,027)	(NIL)	(5,27,132)
Long-term capital gain	5,00,000	5,61,973	10,00,000	6,22,868

Note:

As per the provisions of section 55(2)(a), the cost of acquisition of goodwill of a business or tenancy right has to be taken as NIL. Therefore, on transfer of these assets, capital gains would arise and shall be chargeable to tax in the hands of the assessee.

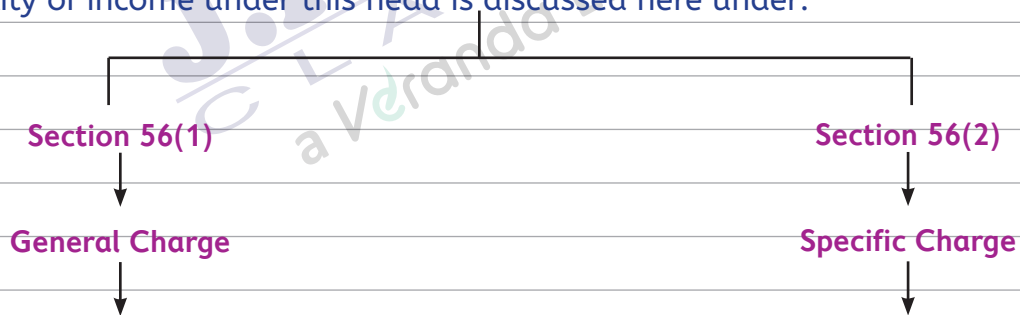
INCOME UNDER THE HEAD OTHER SOURCES

Provisions to be studied under the head 'Other Sources'



Basis of Charge - [Section 56]

This is the last and the residuary head of income under the Income Tax Act, 1961. Chargeability of income under this head is discussed here under:



<p>An income shall be charged to tax under the head 'Other Sources' if:</p> <ul style="list-style-type: none"> - such income is not exempt under the Income Tax Act, 1961; <li style="text-align: center;">and - it is not taxable under any of the other four heads of income. 	<p>Following incomes shall always be taxable under the head 'Other Sources':</p> <ol style="list-style-type: none"> (1) Dividends - [Section 56(2)(i)] (2) Casual Incomes (i.e. Winnings) - [Section 56(2)(ib)] (3) Any sum received by the assessee from his employees as a contribution to any provident fund, superannuation fund or any other fund for the welfare of the employees (if not taxable under the head 'PGBP') - [Section 56(2)(ic)]
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<p>For example:</p> <ul style="list-style-type: none"> - Interest on deposits or loans - Directors' sitting fees or board meeting fees 	<p>(4) Interest on securities <i>(if not taxable under the head 'PGBP') - [Section 56(2)(id)]</i></p> <p>(5) Rental income from plant, machinery or furniture <i>(if not taxable under the head 'PGBP') - [Section 56(2)(ii)]</i></p> <p>(6) Composite rent from letting out plant, machinery or furniture along with building and the two lettings are not separable <i>(if not taxable under the head 'PGBP') - [Section 56(2)(iii)]</i></p> <p>(7) Any sum received under Keyman Insurance Policy <i>(if not taxable under the head 'PGBP' or 'Salary') - [Section 56(2)(iv)]</i></p>
<ul style="list-style-type: none"> - Insurance commission - Agricultural income from any land situated outside India - Rent from an open plot or vacant land - Royalty income - Rent from sub-letting etc. 	<p>(8) Consideration received on issue of shares by a closely held company in excess of the FMV of the shares if the amount of such consideration exceeds the face value of the shares - <i>[Section 56(2)(viib)]</i></p> <p>(9) Interest on compensation or enhanced compensation received on compulsory acquisition of a capital asset - <i>[Section 56(2)(viii)]</i></p> <p>(10) Any sum received as advance or otherwise in the course of negotiations for transfer of a capital asset where such sum is forfeited and the negotiations do not result in actual transfer - <i>[Section 56(2)(ix)]</i></p> <p>(11) Any sum of money or property received without consideration or for inadequate consideration by any person - <i>[Section 56(2)(x)]</i></p> <p>(12) Any compensation or other payment, due to or received by any person, in connection with termination of his employment or the modification of the terms and conditions relating thereto - <i>[Section 56(2)(xi)]</i></p>

(13) Any taxable maturity of L.I.P. ie the sum so received as exceeds the aggregate of premium paid, which is not exempt u/s 10(10D) and which is not ULIP/ Keyman insurance policy then this taxable maturity amount is taxable under IFOS [Sec 56(2)(xiii)]

Incomes under the head 'Other Sources' and their tax treatment - [Section 56]

Dividends - [Section 56(2)(i)]

The term 'dividend' under the Income Tax Act, 1961 has a wider scope and meaning than what is normally understood.

Normally, there are two types of dividends viz. final dividend and interim dividend.

However, the Income Tax Act, 1961 treats certain specific payments or distributions made by a company to its shareholders as dividends [also known as deemed dividends as per section 2(22)(a) to (e)].

These all dividend are taxable in the hands of share holder.

Deemed Dividends u/s 2(22)(a) to (e)

According to section 2(22), the following receipts are deemed to be dividend:

- ✓ **Distribution of entailing the release of company's assets - [Section 2(22)(a)]:**
Any distribution entailing the release of all or any part of its assets by a company to its shareholders shall be deemed to be dividend in the hands of such shareholders. Market value of the assets distributed as on the date of such distribution shall be considered as deemed dividend, to the extent of accumulated profits.
- ✓ **Distribution of debentures, deposit certificates to shareholders and bonus shares to preference shareholders - [Section 2(22)(b)]:**
Any distribution by a company to its shareholders of debentures, debenture stock or deposit certificate in any form, whether with or without interest and any distribution of bonus shares to preference shareholders, to the extent of accumulated profits, shall be deemed as dividend.
The market value of such bonus shares is deemed as dividend in the hands of the preference shareholder.
In the case of debentures, debenture stock etc. their value is to be taken at the market rate and if there is no market rate they should be valued according to accepted principles of valuation.

Note:

Bonus shares given to equity shareholders are not treated as dividend.

✓ **Distribution on liquidation - [Section 2(22)(c)]:**

Any distribution made to its shareholders by a company on its liquidation, to the extent of accumulated profits of the company immediately before its liquidation, shall be deemed to be dividend.

✓ **Distribution on reduction of capital -[Section 2(22)(d)]:**

Any distribution to its shareholders by a company on the reduction of its capital to the extent of accumulated profits, shall be deemed to be dividend.

Exception:

Any payment made by a company on purchase of its own shares (i.e. buyback of own shares) from a shareholder in accordance with the provisions of section 58 of the Companies Act, 2013.

✓ **Advance or loan by a closely held company to its shareholder -[Section 2(22)(e)]:**

Any payment made

- by a company in which the public are not substantially interested,
- of any sum by way of advance or loan,
- to any shareholder who is the beneficial owner of 10% or more of the equity capital of such company

shall be deemed to be dividend to the extent of the accumulated profits.

Any Advance or loan by a closely held company to a specified concern -[Section 2(22)(e)]:

Any payment made;

- by a company in which the public are not substantially interested,
- to any concern (i.e. HUF/ Firm/ AOP/ BOI/ Company),
- in which a shareholder, having the beneficial ownership of atleast 10% of the equity shares is a member or a partner;
- and in which he has a substantial interest (i.e. atleast 20% share of the income of the concern)

shall be deemed to be dividend to the extent of the accumulated profits.

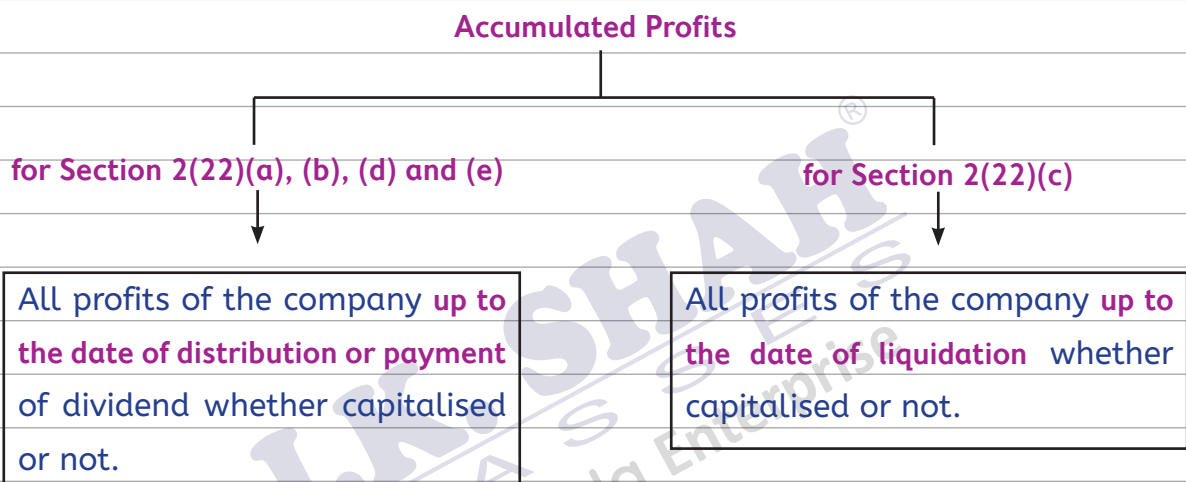
Also, any payments by such a closely held company on behalf of or for the individual benefit of any such shareholder shall also be deemed to be dividend to the extent of accumulated profits.

Exceptions:

The following payments or loan given would not be deemed as dividend:

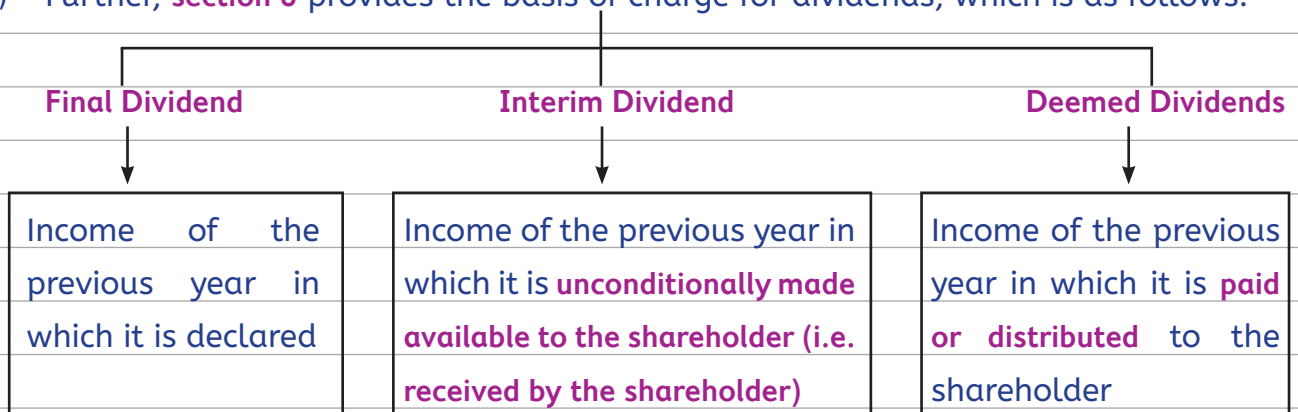
- If the loan is granted in the ordinary course of its business and lending of money is a substantial part of the company's business, the loan or advance to a shareholder or to the specified concern shall not be deemed to be dividend.
- Where a loan had been treated as dividend and subsequently, the company declares and distributes dividend to all its shareholders including the borrowing shareholder, and the dividend so paid is set-off by the company against the previous borrowing, the adjusted amount shall not be again treated as a dividend.

Note:



Other Important Notes

- (1) Dividend received from a foreign company is always taxable under the head 'Other Sources' in the hands of ROR, whether received in India or outside. However, it will be taxable in the hands of RNOR or NR only when it is received in India.
- (2) Dividends from a co-operative society received by its members shall also be chargeable to tax under the head 'Other Sources'.
- (3) Further, **section 8** provides the basis of charge for dividends, which is as follows:



Winnings Income - [Section 56(2)(ib)]

Casual incomes like winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort, gambling, betting etc. shall be

Fully Taxable under the head 'Other Sources'

Note:

(1) **Section 115BB** provides that gross winnings income (except winnings from any online game) is chargeable to tax @ 30% (plus surcharge & cess).

Section 115BBJ provides that gross winnings from any "on line game" is chargeable to tax @ 30% (plus surcharge & cess).

And section 194B and 194BB further provides that tax shall be deducted at source @ 30% if gross winnings exceeding Rs. 10,000.

Therefore, if net amount of winnings is given then, net amount shall be first grossed up & such amount is charged to tax i.e.:

Net Amount of Winnings	xx
Add: Tax Deducted at Source u/s 19B or 194BB	xx
Gross Amount of Winnings	xx

Taxable under the head 'Other Sources'

(2) **No expenditure or allowance** shall be allowed from such income. Further, no losses can be set-off against winnings income.

(3) **Deduction under Chapter VI-A** shall not be allowed from such income.

(4) **Adjustment of unexhausted basic exemption limit** is also **not permitted** against such income.

(5) In section 115BB, now T.D.S.on gambling & betting is also included.

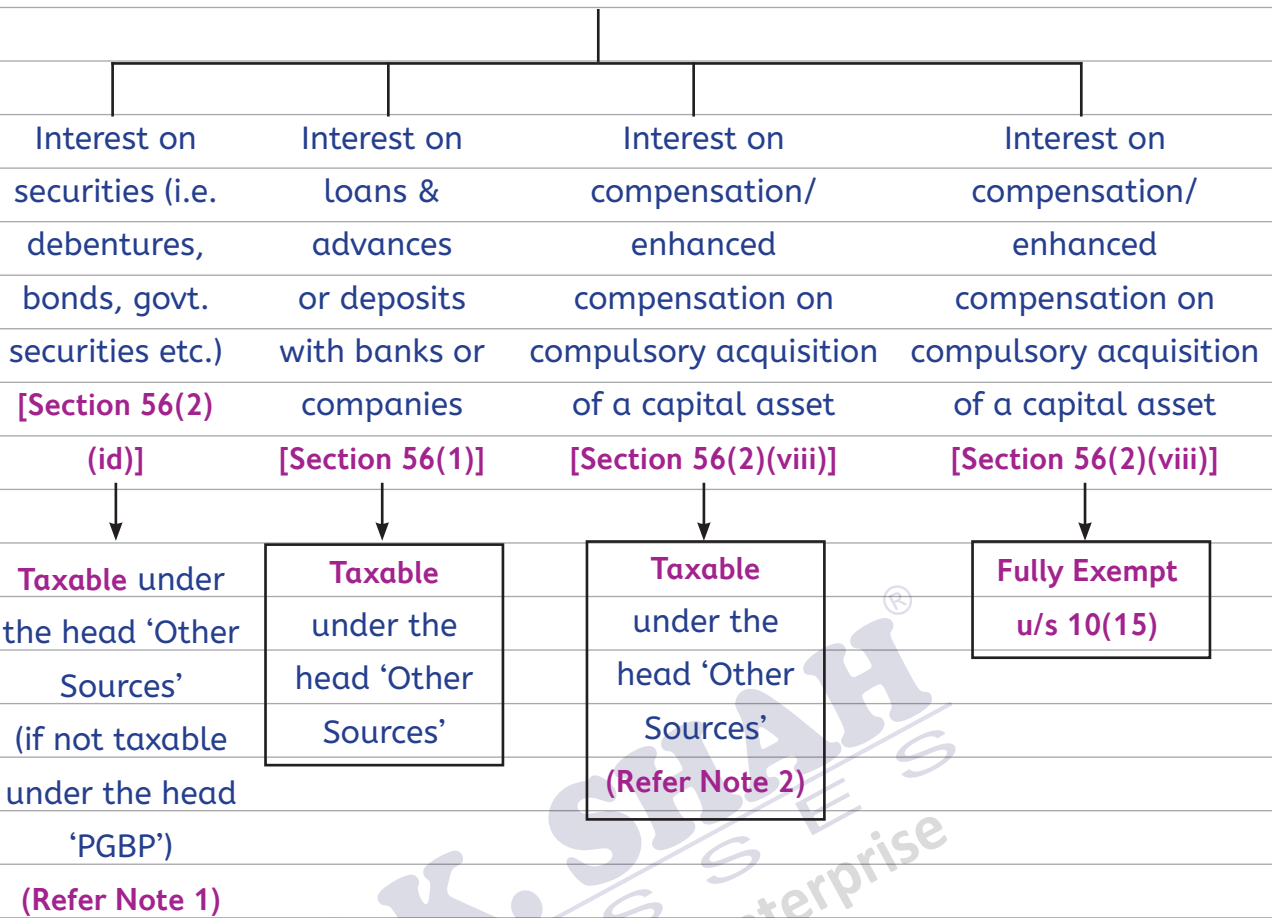
Any sum received by the assessee from his employees as contribution to any provident fund, superannuation fund or any other fund for the welfare of the employees - [Section 56(2)(ic)]

Taxable under the head 'Other Sources' (if not taxable under the head 'PGBP')

Note:

The amount to the extent deposited in the respective funds on or before the due dates as mentioned under the respective Acts shall be allowed as a deduction u/s 57.

Interest Income



Note:

- (1) If the securities are **held as stock in trade**, then the interest received thereon shall be **taxable under the head of 'PGBP'**. However, if the securities are **held as investments**, then the interest shall be **taxed under the head 'Other Sources'**.
- (2) Interest on compensation/enhanced compensation on compulsory acquisition of a capital asset, **shall always be taxable on receipt basis, subject to standard deduction u/s 57 @ 50% of the interest received.**
- (3) **Specified Securities/Investments:**
Interest received on the following securities or investments shall be **fully exempt u/s 10(15):**

- (1) **Gold Bonds, Gold Deposit Bonds issued under Gold Deposit Scheme, 1999, Deposit Certificates issued under the Gold Monetization Scheme, 2015**

Note:

Interest on **Sovereign Gold Bonds (SGBs)** is however, taxable under the head 'Other Sources'.

(2) National Savings Annuity Certificates, National Defence Gold Bonds, National Plan Certificates, National Plan Savings Certificates
(3) Post Office Cumulative Time Deposit Account, Post Office Cash Certificates, Post Office Savings Deposit Account. However, Interest on Post Office Savings Deposit Account shall be exempt u/s 10(15): - to the extent of maximum Rs. 3,500 (in case of an individual account); and - to the extent of maximum Rs. 7,000 (in case of a joint account).
(4) National Relief Bonds, State Relief Bonds, RBI Relief Bonds
(5) Special Bearer Bonds , 1991
(6) Treasury Savings Deposit Certificates
(7) 7% Capital Investment Bonds
(8) Issued by a Local Authority/State Pooled Finance Entity
(9) Notified Bonds or Debentures of any Public Sector Company subject to certain conditions. Accordingly, the Central Government has notified: Tax-free Bonds issued by India Infrastructure Company Ltd. Tax-free, Secured, Redeemable, Non-Convertible Bonds of the Indian Railway Finance Corporation Ltd. (IRFCL), National Highways Authority of India (NHAI), Rural Electrification Corporation Ltd. (RECL), Housing and Urban Development Corporation Ltd. (HUDCL), Power Finance Corporation (PFC), Jawaharlal Nehru Port Trust (JNPT), Dredging Corporation of India Limited (DCIL), Ennore Port Limited (EPL) and Indian Renewable Energy Development Agency Limited (IREDAL).
(10) Deposit made by an employee of the Central or State Government or a Public Sector Company with the Government of India in accordance with the scheme as may be notified of the moneys due to him on account of his retirement while on superannuation or otherwise.
(11) Deposit made on or after 01-04-2005 in an Offshore Banking Unit (i.e. a branch of a bank located in a SEZ) by a Non-Resident or a Not-Ordinarily Resident assessee.
(12) Interest payable by a scheduled bank to a non-resident or to a not-ordinarily resident in India on deposits in foreign currency where the acceptance of such deposits by the bank is approved by RBI.

(4) Interest on **income tax refund** shall be **taxable** under the head 'Other Sources'

(5) Interest on Public Provident Fund (**PPF**) Account - **Fully Exempt u/s 10(11)**.

(6) **Accrued interest** on National Savings Certificates (NSC) – [For 1st 14 years]

Taxable under the head 'Other Sources'

Deduction u/s **80C** (✓)

However, interest accrued on National Savings Certificates (NSC) for the 15th year shall be taxable under the head 'Other Sources' but shall not be allowed as a deduction u/s 80C.

(7) If the interest income has been received net of TDS then such interest income **has to be grossed up before its taxability i.e.:**

Net Amount of Interest	xx
Add: Tax Deducted at Source	xx
Gross Amount of Interest	xx

Taxable under the head 'Other Sources'

(8) As per the provisions of **section 9(1)**, if the interest is payable by the Government or it is payable on loan and such loan is used in India, then the interest shall be deemed to accrue or arise in India and shall be taxable for all kinds of assessee whether resident or non-resident

Rental Income

from letting out plant, machinery or furniture

[Section 56(2)(ii)]

Taxable under the head 'Other Sources'
(if not taxable under the head 'PGBP')

from letting out building along with plant, machinery or furniture and the letting is inseparable

[Section 56(2)(iii)]

Taxable under the head 'Other Sources'
(if not taxable under the head 'PGBP')

from letting out open plant of land

Taxable under the head 'Other Sources'

from sub-letting a building

Taxable under the head 'Other Sources'

Amount received under Keyman Insurance Policy (including Bonus, if any) -

[Section 56(2)(iv)]



Taxable under the head 'Other Sources' (if not taxable under the head 'PGBP' or 'Salary')

Keyman Insurance Policy:

Keyman Insurance policy means a life insurance policy taken by a person on the life of another person who is or was the employee of the first mentioned person or is or was connected in any manner whatsoever with the business of the first mentioned person.

Following points are important to note with regard to a keyman insurance policy:

- (a) it is a life insurance policy;
- (b) it is a policy taken by one person on the life of another person; and
- (c) the relationship between such persons should either be that of employer-employee or any other business relationship.

Tax treatment of amounts involved in keyman insurance policy:

Premium paid on the keyman insurance policy:

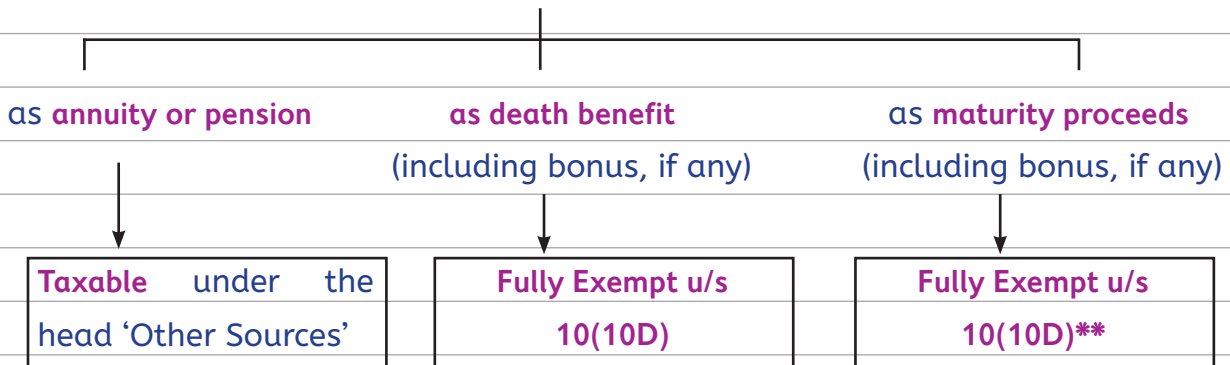
In the hands of person taking the policy	Allowable as a deduction u/s 37(1).
In the hands of keyman	Not to be treated as a perquisite u/s 17(2) in the hands of keyman because premium paid is for the benefit of first mentioned person and not the keyman.

Maturity proceeds or amount received on the death of the keyman:

In the hands of person taking the policy	Taxable under the head 'PGBP' u/s 28(vi)
In the hands of keyman	If the first mentioned person has assigned the policy in the favor of the keyman, then, any surrender value or maturity proceeds from such policy shall be taxable under the head 'Salaries' as 'profits in lieu of salary' u/s 17(3).
In the hands of any other person	If the first mentioned person has assigned the policy in favor of any other person then any surrender value or maturity proceeds or death benefit from such policy shall be taxable under the head 'Other Sources' u/s 56(2)(iv).

Note:

(1) Tax treatment of amounts received under life insurance policies:



****The amount of maturity proceeds (including bonus, if any) shall be fully exempt u/s 10(10D) only if:**

the amount of annual premium on such policy does not exceed	in case where the policy is issued
- N.A. -	before 01-04-2003
20% of Capital Sum Assured	on or after 01-04-2003, but on or before 31-03-2012
10% of Capital Sum Assured	on or after 01-04-2012, but on or before 31-03-2013
	on or after 01-04-2013:
10% of Capital Sum Assured	for any normal person
15% of Capital Sum Assured	for any person suffering from a disability specified u/s 80U or any disease or ailment as specified u/s 80DDB

(2) Any amount received from the medical insurance company as reimbursement of the expenses on medical treatment shall be ignored as the same is not considered as income under the Income Tax Act, 1961.

(3) Further, any amount received from the insurance company as a compensation for loss of stock in trade or trading assets shall be considered as income chargeable to tax under the head 'PGBP'.

However, any amount received from an insurance company as a compensation for damage or destruction of a capital asset shall be chargeable to tax under the head 'Capital Gains'.

Consideration received on issue of shares by a closely held company from any resident; non-resident in excess of the FMV of the shares if the amount of such consideration exceeds the face value of the shares - [Section 56(2)(viib)]

As per the provisions of section 56(2)(viib);

- where a **closely held company** (i.e. a company in which the public is not substantially interested);
- receives during any previous year **from any resident; non - resident;**
- any consideration for issue of shares in excess of the face value of the shares (**i.e. shares are issued at premium**);
- then, the amount of **consideration** received by such company which is **in excess of FMV** of such shares shall be considered as the income chargeable to tax under the head 'Other Sources' in the hands of such company.

Note:

(1) For the purpose of Section 56(2)(viib), FMV shall be higher of:

- (a) the value determined in accordance with the prescribed method; or
- (b) the value as may be substantiated by the company to the satisfaction of the A.O. based on the value of its ***assets** on the date of issue of shares.

***assets**

For the purpose of computation of the FMV as above the value of assets shall also include the value of intangible assets being goodwill, patents, copyrights, knowhow, trademarks, licences, franchises, any other business or commercial right of similar nature.

(2) Provisions of section 56(2)(viib) would not be attracted where consideration for issue of shares is received:

- (a) by a Venture Capital Undertaking from a Venture Capital Fund or Venture Capital Company; or
- (b) by a company from a class or classes of persons as notified by the Central Government for this purpose.

Examples:

Company	No. of Shares	Face Value	FMV	Issue Price	Applicability of Section 56(2)(viib)
A Pvt. Ltd.	1,000	100	120	130	Section 56(2)(viib) shall be attracted in this case since the shares are issued at a premium (i.e. issue price exceeds the face value of the shares). Excess of the issue price over the FMV would be taxable u/s 56(2)(viib). ₹ 10,000 [1,000 × ₹ 10 (Rs. 130 - ₹120)] shall be treated as income in the hands of A Pvt. Ltd.

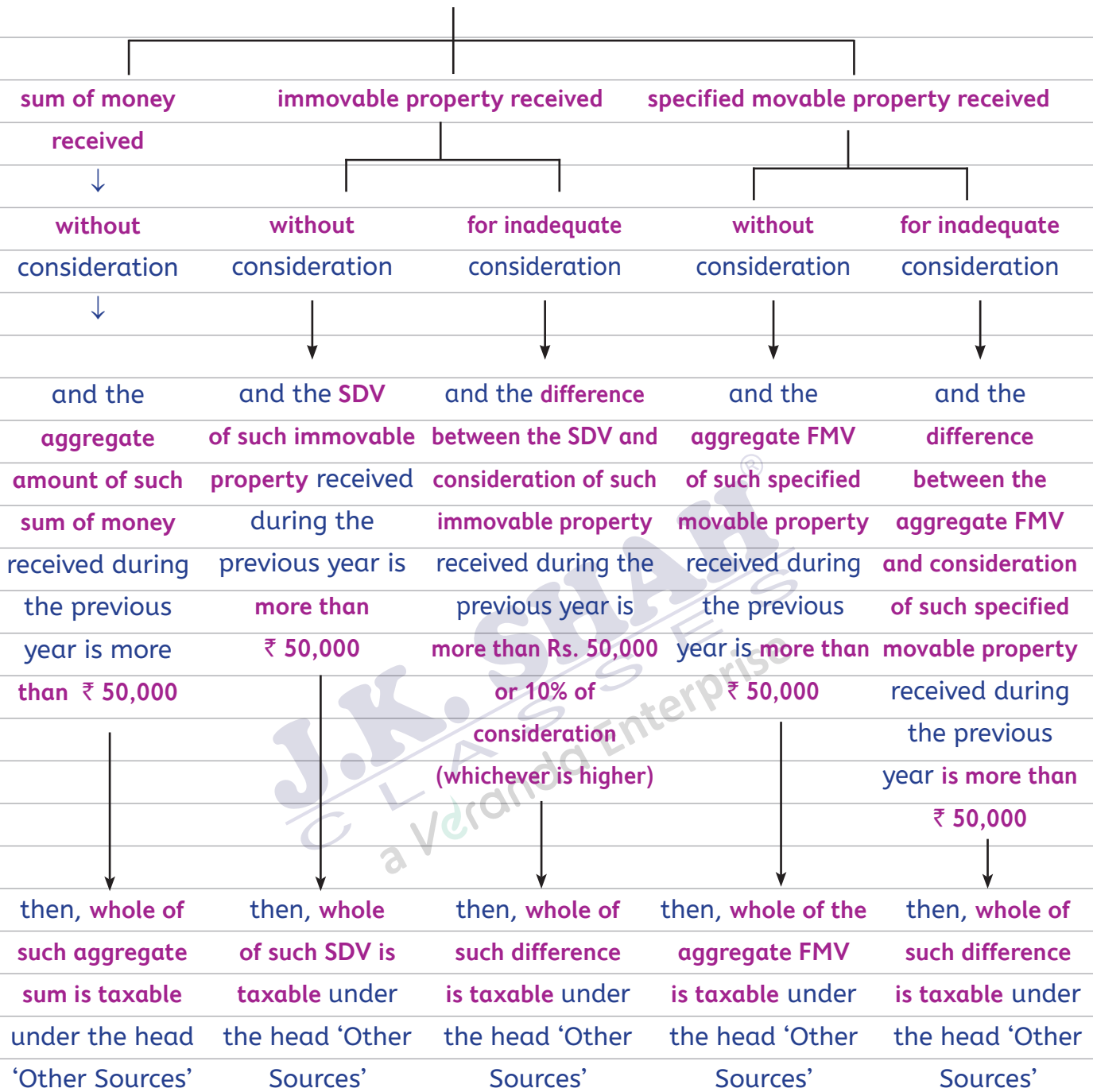
B Pvt. Ltd.	1,000	100	120	110	Section 56(2)(viib) shall be attracted since the shares are issued at a premium. However, no sum shall be chargeable to tax in the hands of B Pvt. Ltd. u/s 56(2)(viib) as the shares are issued at a price less than the FMV of shares.
C Pvt. Ltd.	1,000	100	90	98	Section 56(2)(viib) is not attracted since the shares are issued at a discount, even though the issue price is greater than the FMV.
D Pvt. Ltd.	1,000	100	90	110	Section 56(2)(viib) shall be attracted as the shares are issued at a premium. The excess of the issue price of the shares over the FMV would be taxable u/s 56(2)(viib). Therefore, ₹ 20,000 [1,000 × ₹ 20 (₹ 110 - ₹ 90)] shall be treated as income in the hands of D Pvt. Ltd.
E Ltd.	1,000	100	105	125	Section 56(2)(viib) is not attracted since E Ltd. is a company in which public is substantially interested.

Any sum of money or property received without consideration or for inadequate consideration by any person - [Section 56(2)(x)]

In order to prevent the practice of receiving sum of money or the property without consideration or for inadequate consideration, section 56(2)(x) brings to tax:

- any sum of money or the value of any property received by any person without consideration; or
- the value of any property received for inadequate consideration; from any person during the previous year.

As per the provisions of section 56(2)(x), where:



Note:

(1) The provisions of section 56(2)(x) would apply only to a property which is in the nature of a capital asset in the hands of the recipient and not stock-in-trade, raw material or consumable stores of any business of the recipient.

Therefore, specified movable property for the purpose of Section 56(2)(x) are: Paintings, Drawings, Jewellery, Art Works, Archaeological Collections, Sculptors, shares and virtual digital asset.

(2) **Non-applicability of section 56(2)(x):**

Any sum of money or value of property received in the following circumstances would be outside the scope of section 56(2)(x):

(a) from any **relative**;

Relative for Individual	Relative for HUF
(1) Spouse of such Individual	Any Member of
(2) Brothers & Sisters of such Individual	the HUF
(3) Brothers & Sisters of the Spouse of such Individual	
(4) Brothers & Sisters of the parents of such Individual	
(5) Lineal Ascendants or Lineal Descendants of such Individual	
(6) Lineal Ascendants or Lineal Descendants of the Spouse of such Individual	
(7) Spouses of the persons referred to in points (2) to (6) above	

(b) on the occasion of the **marriage** of the recipient;

(c) under a **will** or by way of **inheritance**;

(d) in **contemplation of death** of the payer or donor, as the case may be;

(e) **from any local authority**;

(f) **from any fund or foundation or university or other educational institution or hospital or other medical institution or any trust or institution**;

(g) **from any trust or institution registered u/s 12AA or u/s 12AB**

(h) **from an individual by a trust** created or established solely for the benefit of relative of the individual;

(i) **by any fund or trust or institution or any university or other educational institution or any hospital or other medical institution**;

(j) by an individual, from any person for treatment/death due to covid - 19, to the extent that such sum/gift or aggregate of such sums is $\leq 10,00,000$ and such amount is received within 12 months in case of death of such person.

(3) Sum of money may be received by the assessee from any person in Indian or in foreign currency. Further, it may be received in India or outside India.

However, for assessing such sums the above provisions shall apply only after considering the residential status of the assessee and place & time of accrual/receipt of such sum.

(4) Where any property is received by the assessee without consideration or for inadequate consideration, then, the assessee is liable to be taxed u/s 56(2)(x) in respect of such property.

If the said property is later on transferred by the assessee, then, as per the provisions

of section 49(4), the value of such property considered for the purpose of taxability u/s 56(2)(x) (i.e. SDV or FMV, as the case may be) shall be deemed to be the COA for the purpose of computing capital gains in the hands of the assessee.

Any sum received as advance money or otherwise and forfeited in the course of negotiations for transfer of a capital asset where the negotiations did not result into actual transfer of the capital asset - [Section 56(2)(ix)]



Taxable under the head 'Other Sources'

Note:

The amount of advance money or any other sum received and forfeited shall not be adjusted from the cost of the capital asset u/s 51 if the same gets taxed under the head 'Other Sources' as per the provisions of section 56(2)(ix).

Other incomes taxable under the head 'Other Sources' as per Section 56(1)

- ✓ Royalty Income (if not taxable under the head 'PGBP') shall be taxable under the head 'Other Sources'.
- ✓ Remuneration from a Non-Employer shall be taxable under the head 'Other Sources'.

For example:

Paper setting/checking fees received by a college lecturer from the university, Honorarium received by a doctor/CA for taking seminars or guest lectures etc.

- ✓ Family Pension received by the family members/legal heirs of a deceased employee shall be taxable under the head 'Other Sources' subject to standard deduction u/s 57.

Standard Deduction u/s 57 out of family pension shall be least of the following amounts:

- (a) 1/3rd of the family pension received; or
- (b) Maximum Rs. 15,000

Note:

(1) Pension received by a recipient of gallantry awards:

Any income by way of pension received by an individual who has been awarded:

- (a) Param Vir Chakra; or
- (b) Maha Vir Chakra / Vir Chakra; or
- (c) Such other gallantry award as the Central Government may, by notification in the Official Gazette specify in this behalf; shall be fully exempt u/s 10(18) in the hands of such individual.

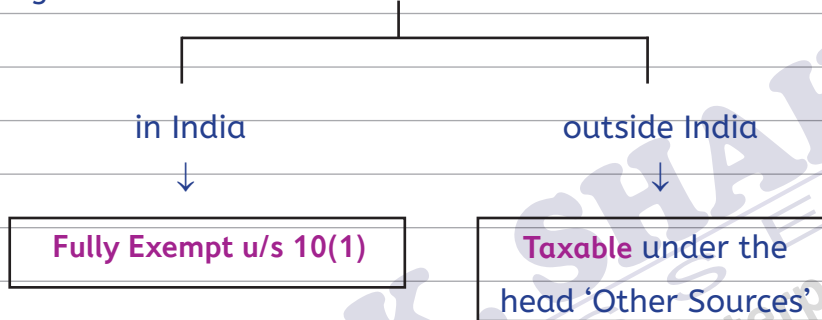
Note:

Further, in case of death of the awardee, any family pension received by any member of the family of such awardee shall also be exempt from tax u/s 10(18).

(2) Family Pension received by the widow/children/nominee of the members of armed forces:

Where the death of any member of the armed forces has occurred in the course of operational duties in certain specified circumstances, then, the amount of family pension received by the widow/children/nominee of such member shall be fully exempt u/s 10(19) in the hands of such widow/children/nominee.

✓ Agricultural Income from a land situated



Note:

Agricultural Income from a land situated outside India is always taxable in the hands of 'ROR'. However, it will be taxable in the hands of RNOR or NR only if it is received in India.

✓ Insurance Commission received by the insurance agents shall be taxable under the head 'Other Sources'.

✓ Board Meeting Fees/Sitting Fees received by the directors shall be taxable under the head 'Other Sources'.

Note:

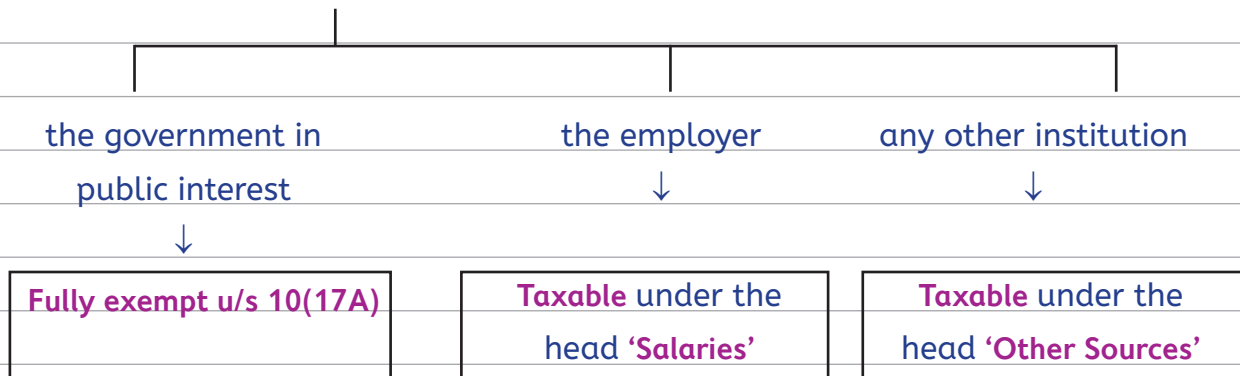
Any guarantee/underwriting commission received by a director shall also be taxable under the head 'Other Sources'.

✓ Clubbed Income of Minor Child shall be taxable under the head 'Other Sources'.

Note:

Clubbed income of the minor child shall be exempt u/s 10 (32) to the extent of maximum Rs. 1,500 per annum per minor child.

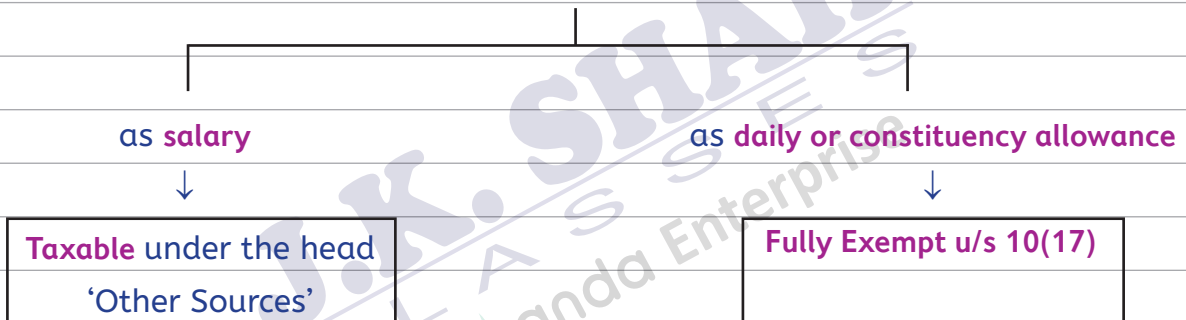
- ✓ Awards received by any person from



Note:

Awards received by professional sportsmen shall however be taxable under the head 'PGBP' and not under the head 'Other Sources'.

- ✓ Income received by any MP/MLA/MLC



- ✓ Income arising from an activity of owning & maintaining race horses shall be taxable under the head 'Other Sources'.

Note:

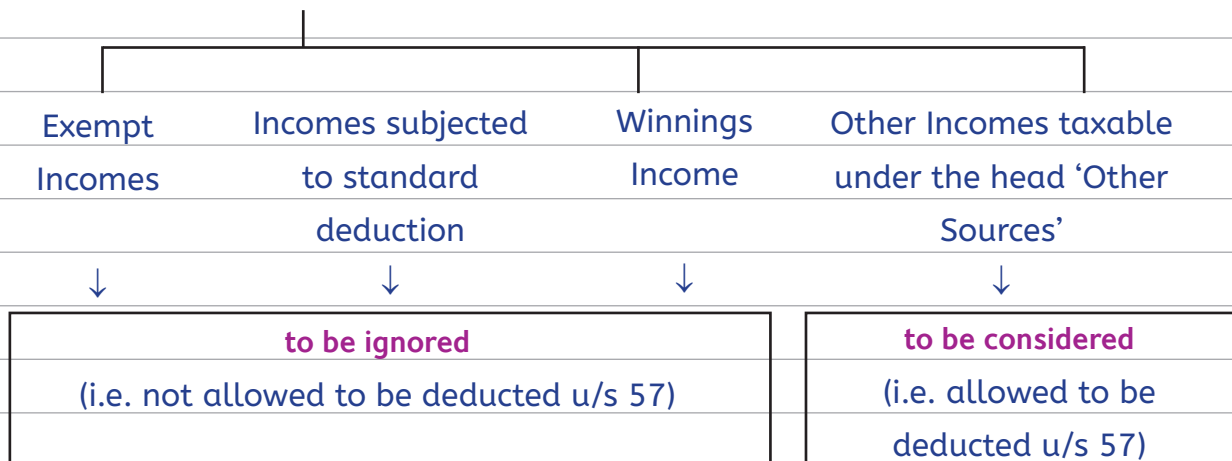
Income from such activities taxable under this head shall be computed as follows:

Stake Money Received (-) Expenses u/s 57.

Deductions allowable under the head 'Other Sources' - [Section 57]

While computing the income chargeable to tax under the head 'Other Sources', deduction u/s 57 shall be allowed in respect of **any revenue expenditure which is incurred wholly & exclusively in connection with earning the income taxable under the head 'Other Sources'**.

Therefore, expenditures incurred in respect of earning



Note:

(1) **Following amounts could be claimed as deductions u/s 57:**

- (i) In the case of interest on securities, any reasonable sum paid by way of commission/remuneration to a banker will be allowed u/s 57.
In case of Dividend income, the maximum deduction u/s 57 towards interest on loan will be 20% of the dividend received.
- (ii) Where the income consists of recovery from employees as contribution to any provident fund etc., then, a deduction will be allowed to the extent such contribution is remitted/deposited before the due date under the respective Acts.
- (iii) Where the income to be charged under this head is from letting on hire of machinery, plant and furniture, with or without building, the following items of deductions are allowable in the computation of such income:
 - (a) current repairs to the machinery, plant or furniture;
 - (b) any premium paid in respect of insurance against risk of damage or destruction of the machinery or plant or furniture;
 - (c) normal depreciation allowance in respect of the machinery, plant or furniture.
- (iv) In the case of income in the nature of family pension, a deduction of a sum equal to 1/3rd of such income or Rs. 15,000, whichever is less, is allowable.
- (v) 50% of the interest on compensation/enhanced compensation on compulsory acquisition of any capital asset under any law.
- (vi) Any other expenditure not being in the nature of capital expenditure laid out or expended wholly and exclusively for the purpose of making or earning such income.

(2) Other deductions as mentioned under the head 'PGBP' are also made applicable, so far as may be, to compute the income under the head 'Other Sources'.

- (3) To claim the deduction of expenditure u/s 57, it is not necessary that such expenditure shall produce income. It would be sufficient if the expenditure is incurred wholly & exclusively in connection with earning the income.

Amounts not deductible under the head 'Other Sources' - [Section 58]

As per the provisions of section 58, following amounts shall not be allowed to be deducted while computing the income under the head 'Other Sources':

- (1) Any **personal expense** of the assessee.
- (2) Any **interest** chargeable to tax under the Income Tax Act, 1961, which is **payable outside India and on which tax has not been paid or deducted at source.**
- (3) Any **salary** chargeable to tax under the Income Tax Act, 1961, which is **payable outside India and on which tax has not been paid or deducted at source.**
- (4) Any payment made to **relatives and associate concerns in excess of reasonable amount.**
- (5) Any payment or aggregate of **payments exceeding Rs. 10,000** made to a person during a single day otherwise than by an account payee cheque or bank draft or ECS through bank account.
- (6) **30% of the expenditure** shall not be allowed, in respect of a sum which is payable to a resident and on which tax is deductible at source, if:
 - such tax has not been deducted or;
 - such tax after deduction has not been paid on or before the due date of filing the return of income as specified u/s 139(1).
- (7) Any **expenditure or allowance in connection with winnings income.**
- (8) **Other disallowances** as mentioned under the head 'PGBP' are also made applicable, so far as may be, to compute the income under the head 'Other Sources'.

Deemed Income under the head 'Other Sources' - [Section 59]

The provisions of Section 41(1) as applicable under the head 'PGBP' are also made applicable, so far as may be, to compute the income under the head 'Other Sources'.

Accordingly, where a deduction has been allowed in respect of any loss, expenditure or liability under this head and subsequently any amount is received or benefit is derived in respect of such loss, expenditure or liability, then such amount received or benefit derived shall be deemed to be the income of the previous year in which the amount is received or benefit is derived.

Method of Accounting - [Section 145]

Income chargeable under the head 'Other Sources' is to be computed in accordance with the cash or mercantile system of accounting regularly employed by the assessee.

However, method of accounting is not relevant for the purpose of chargeability of following incomes:

- (a) Dividends (since the charge on dividend is created as per section 8);
- (b) Interest on compensation or enhanced compensation on compulsory acquisition of a capital asset under any law (since such interest is charged on receipt basis); and
- (c) Any sum received as advance money or otherwise in the course of negotiations for transfer of a capital asset where such sum is forfeited and the negotiations do not result in transfer of such capital asset (since such income is charged on receipt basis).

CLASSWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Mr. Chaturvedi, R & OR, gives following information regarding his income in P.Y. 2023-2024.

(A) Dividend Income Details

- (1) He has earned a dividend of ₹1,20,000 from Britney Ltd., Canada & he has recorded following expenses to earn this dividend :

Interest on loan taken to invest in above shares sent abroad

without TDS ₹ 60,000

Interest on loan (taken to invest in above shares) paid in India by cash

₹ 70,000

Collection Charges to realise dividend warrants ₹ 140

(It is Final dividend declared in AGM held on 1 March 2024 at Toronto but received on 10 April 2024. Chaturvedi follows Cash System of accounting regarding dividend incomes).

- (2) Dividend from Shares in Saraswat Co-op Bank (held as stock-in-trade) ₹ 15,000.
- (3) He has taken a loan from Kalasangam Private Limited in which he is 15% equity shareholder. The loan amount is ₹ 6,00,000 & accumulated profits of the company are ₹ 45,60,000.

(B) Interest Income details :

- (a) Interest earned on Govt. Bonds ₹ 1,23,000 (held as stock in trade)
- (b) Interest on Income tax refund ₹ 2,000 & income tax refund ₹ 20,000.

(C) Other Income details :

- (i) Winning from Lottery ₹ 70,000 Net (Tax deducted at Source ₹ 30,000) (He claims the cost of lottery tickets ₹ 20,000 as expenses)
- (ii) He has received ₹12,00,000 on assignment & immediate surrender of Key man Insurance Policy. (On resignation as head of Sales Department).
- (iii) He received ₹ 5,000 on his birthday from each of his eleven friends and a diamond ring of ₹ 5,00,000/- from his wife.

You are required to calculate total Income & tax liability for Assessment Year 2024-2025.

Question 2

Rahul holding 28% of equity shares in a company, took a loan of ₹ 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of ₹ 4,00,000. The company is engaged in some manufacturing activity.

- (i) Is the amount of loan taxable as deemed dividend in the hands of Rahul, if the company is a company in which the public are substantially interested?
- (ii) What would be your answer, if the lending company is a private limited company (i.e. a company in which the public are not substantially interested)?

Question 3

Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 -

- (i) Akhil HUF received ₹ 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.
- (ii) Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 9,00,000.
- (iii) Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was ₹ 100 per share. He also received jewellery worth ₹ 45,000 (FMV) from his nephew on the same day.
- (iv) Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 5,25,000.

Question 4

Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:

- (i) Mr. A received an advance of ₹ 50,000 on 1-09-2023 against the sale of his house. However, due to non-payment of instalment in time, the contract has cancelled and the amount of ₹ 50,000 was forfeited.
- (ii) Mr. N, a member of his father's HUF, transferred a house property to the HUF without consideration. The value of the house is ₹ 10 lakhs as per the Registrar of stamp duty.
- (iii) Mr. Kumar gifted a car to his sister's son (Sunil) for achieving good marks in CA Final exam. The fair market value of the car is ₹ 5,00,000.

Question 5

PQR private Ltd. a closely held company, involved in the manufacture of goods, has given the following **independent** loans to registered shareholders holding atleast 10% in the voting powers of PQR private Ltd. beneficially :

- (1) To MR. A of ₹15,00,000 when the general reserve & current profits were ₹16,00,000 and ₹ 8,00,000 respectively.
- (2) To MR. B of ₹ 26,00,000 when the general Reserve & current profit were ₹16,00,000 and ₹ 8,00,000 respectively.
- (3) To XYZ bros. of ₹ 15,00,000 in which Mr. A share holder of PQR (P) Ltd., is substantially interested i.e. having 20% or more in the profit sharing in the loan receiving firm, when the general reserve was ₹18,00,000 of PQR (P) Ltd..
- (4) PQR (P) Ltd. has a general reserve of ₹15,00,000, and the company has given a loan of ₹12,00,000 on 5.5.23 to Mr. A & ₹ 10,00,000 to MR. B on 6.6.23.

Compute the deemed dividend taxable u/s 2(22)(e) in each of the independent situations.

Question 6

Dr. Eknath is a Professor of Taxation and is a resident of India. He submits before you the following detail for computing his income under the head 'Income from other sources' for the assessment year 2024-2025:

1. He is a author of a text book of a school which fetched him a gross royalty of ₹ 1,50,000. He claims the following deductions from this amount:
 - (a) Salary to a clerk who collects for him necessary data and goes through the final proofreading ₹ 5,000.
 - (b) Purchased books worth ₹ 4,000 in connection with the revision of the book.
 - (c) Telephone expenses of ₹ 2,000 attributed to the publication and sale of his book and other matters in connection with the printing of the new edition of the book.
2. He borrowed ₹24,00,000 on 1.4.2023 from a Bank @ 18% p.a. He invested the money in the purchase of plot of land meant to be let out on hire. During the year, no rental income was received from the land. He, however, claimed that the interest paid to the bank must be allowed as an expense.
3. He lives in a rented house paying rent of ₹10,000 p.m. The house is too big for his family. Hence he has sub - let one - third portion of the house on a rent of ₹ 7,000

p.m. Dr. Eknath has undertaken the liability of paying municipal taxes of ₹ 5,400 on the whole house and also the current repair of the whole house amounting to ₹ 6,000.

4. He gets a family pension of ₹12,500 p.m. He is an examiner of a number of Universities. This source gave him a remuneration of ₹ 24,000.
5. He owns race horses, the expenses on their maintenance are ₹ 1,20,000. He has earned stake money of ₹ 9,00,000 when one of the horses stood first in the race.
6. He has received dividend from co-operative society ₹ 10,000/-.

CLASSWORK SOLUTION

Answer 2

Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend under section 2(22)(e), to the extent the company possesses accumulated profits, taxable in the hands of Shareholder.

- (i) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.
- (ii) However, if the loan is taken from a private company (i.e. a company in which the public are not substantially interested), which is a manufacturing company and not a company where lending of money is a substantial part of the business of the company, then, the provisions of section 2(22)(e) would be attracted, since Rahul holds more than 10% of the equity shares in the company.

The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend in the hands of Rahul would be limited to the accumulated profit i.e., ₹ 4,00,000 and not the amount of loan which is ₹ 5,00,000.

Answer 4

S.No.	Taxable / Not Taxable	Reason
(i)	Taxable	Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset would be chargeable to tax under the head "Income from other sources", if such amount is forfeited and the negotiations do not result in transfer of such capital asset [Section 56(2) (ix)]. Therefore, the amount of ₹ 50,000 received as advance would be chargeable to tax in the hands of Mr. A under the head "Income from other sources", since it is forfeited on account of cancellation of contract for transfer of house, being a capital asset, due to non-payment of installment in time.

(ii)	Not Taxable	As per section 56(2) (x), immovable property received without consideration by a HUF from its relative is not taxable. In the present case, since Mr. N is a member of his father's HUF, he is a relative of the HUF. Hence, ₹ 10 lakhs, being the stamp duty value of house property received by HUF, without consideration, would not be chargeable to tax in the hands of the HUF.10.
(iii)	Not Taxable	Car is not included in the definition of "property", for the purpose of taxability under section 56(2)(x), in the hands of the recipient under the head "Income from other sources". Further, the same has been received by Sunil from his mother's brother, who falls within the definition of "relative". Hence, ₹ 5,00,000, being the fair market value of car received without consideration from a relative is not taxable in the hands of Sunil, even though its value exceeds ₹ 50,000.

Answer 5

- (1) This is deemed dividend u/s 2(22)(e) in the hands of Mr. A, a registered shareholder, holding atleast 10% in the voting powers beneficially, of ₹ 15,00,000, since the accumulated profits are more than ₹ 15,00,000. i.e ₹ 24,00,000.
- (2) This is deemed dividend in the hands of Mr. B a registered shareholder, holding atleast 10% in the voting powers beneficially, u/s 2(22)(e) of ₹ 24,00,000, since the accumulated profits are 24,00,000, thus restricted to such an extent, even though the loan amount is ₹ 26,00,000.
- (3) This is deemed dividend of ₹ 15,00,000 in the hands of Mr. A u/s 2(22)(e), since Mr. A is a registered shareholder of PQR(P) Ltd. holding atleast 10% in the voting powers beneficially, and is substantially interested in the loan receiving organization. This is so because the accumulated profits of PQR(P) Ltd. is ₹ 18,00,000.
- (4) (a) Deemed Dividend of ₹ 12,00,000 in the hands of Mr. A, a registered shareholder, holding atleast 10% in the voting powers beneficially, on 5.5.2023, since the accumulated profits at this moment of time are ₹ 15,00,000.

- (b) Deemed Dividend of ₹ 3,00,000 in the hands of Mr. B a registered shareholder, holding atleast 10% in the voting powers beneficially, on 6.6.2023 although the loan amount is ₹10,00,000, since the accumulated profits that remains now as at 6.6.2023 is ₹ 3,00,000 (₹ 15,00,000 total ₹ 12,00,000 taken for A).

Answer 6

Dr. Eknath

Computation of Income from Other Sources for A.Y. 2024-25

Particulars	₹	₹
Royalty received	1,50,000	
Less: Expenses incurred		
Salary to clerk	(5,000)	
Telephone expenses	(4,000)	
Purchase of books	(2,000)	1,39,000
Rent received from a plot of land	NIL	
Less: Interest on bank loan, allowed u/s. 57 [24,00,000 × 18% p.a.]	(4,32,000)	(4,32,000)
Income from sub-letting		
Rent received [₹ 7,000 p.m. × 12 months]	84,000	
Less: Expenses u/s. 57		
Rent payable [₹10,000 p.m. × 12 months]	1,20,000	
Municipal taxes	5,400	
Current repairs	<u>6,000</u>	
Total	1,31,400	
X Portion sub-let	<u>1/3</u>	(43,800)
Family pension received [₹ 12,500 p.m. × 12 months]	1,50,000	
Less: Standard deduction u/s. 57: Least of 1/3 of	50,000	
Family pension		
Or Maximum	<u>15,000</u>	(15,000)
Income as examiner of universities		24,000
Dividend from shares of co-operative society		10,000
Income from the activity of owning and maintaining Race Horses		
Stake money received	9,00,000	
Less: Expenses incurred	(1,20,000)	7,80,000
TAXABLE INCOME FROM OTHER SOURCES		6,96,200

HOMEWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

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 ₹ 75,000 on his anniversary, 15th April, 2023.
- (2) Billion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2023.
- (3) A plot of land at Faridabad on 1st July, 2023, the stamp value of which is ₹ 5 lakh on that date. Mr. B had purchased the land in April, 2008.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2023, the fair market value of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2023.

Further, on 1st November, 2023, Mr. A took possession of property (building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2023 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2024, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head “Income from other sources” and “Capital Gains” for A.Y. 2024-25.

Question 2

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2024, when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2023 when the stamp duty value was ₹ 140 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for ₹ 75 lakh on 12th July, 2023.

Would your answer be different if Hari was a share broker instead of a property dealer?

Question 3

Interest on enhanced compensation received by Mr. G during the previous year 2022-23 is ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2012-13, ₹ 1,65,000 relates to previous year 2013-14 and ₹ 1,85,000 relates to previous year 2014-15. Discuss the tax implication, if any, of such interest income for A.Y. 2024-25.

Question 4

On 10.10.2023, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2011-12.

Out of this interest, ₹ 1,50,000 relates to the financial year 2013-14; ₹ 1,65,000 to the financial year 2014-15; and ₹ 1,85,000 to the financial year 2015-16. He incurred ₹ 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?

Question 5

The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2024:

- (i) Cash gift of ₹ 51,000 received from her friend on the occasion of her “Shastipatha Poorthi”, a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- (ii) On the above occasion, a diamond necklace worth ₹ 2 lacs was presented by her sister living in Dubai.
- (iii) When she celebrated her daughter’s wedding on 21.2.2024, her friend assigned in Mrs. Hemali’s favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹ 51,000.

Compute the income, if any, assessable as income from other sources.

Question 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 10.10.2022 for ₹ 3,00,000 when the market price was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at ₹ 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 above said transaction.

- (ii) Mr. Chezian is employed in a company with taxable salary income of ₹ 5,00,000. He received a cash gift of ₹ 1,00,000 from Atma Charitable Trust (registered under section 12AA or u/s 12AB) in December 2023 for meeting his medical expenses.

Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Chezian?

HOMEWORK SOLUTIONS

Answer 1

Computation of “Income from other sources” of Mr. A for the A.Y. 2024-25.

	Particulars	₹
(1)	Cash gift is taxable under section 56(2)(X), since it exceeds ₹ 50,000	75,000
(2)	Since bullion is included in the definition of property, therefore when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds ₹ 50,000	60,000
(3)	Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
(4)	Difference of ₹ 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	NIL
(5)	Difference between the stamp duty value of ₹ 23 lakh on the date of booking and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000 being, the higher of ₹ 50,000 and 10% of consideration	3,00,000
Income from Other Sources		9,35,000

Computation of “Capital Gains” of Mr. A for the A.Y. 2024-25.

Particulars	₹
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	(5,00,000)
Short-term capital gains	2,00,000

Note – The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

Answer 2

Case 1: Tax implications if Mr. Hari is a property dealer

In the hands of Mr. Hari	In the hands of Mr. Rajesh
In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value and the stamp duty value exceeds 110% of consideration.	Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration.
Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account on or before the date of agreement. In this case, since the payment is made by crossed cheque, the option cannot be exercised	
Therefore ₹ 75 lakh, being the difference between the stamp duty value on the date of transfer i.e., ₹ 150 lakh, and the purchase price i.e., ₹ 75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration	Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque / draft or ECS.

Case 2: Tax implications if Mr. Hari is a stock broker

In the hands of Mr. Hari	In the hands of Mr. Rajesh
In case Mr. Hari is a stock broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value and the stamp duty value exceeds 110% of consideration.	There would be no difference in the taxability in the hands of Mr. Rajesh whether Mr. Hari is a property dealer or a stock broker.
Thus ₹ 75 lakh, being the difference between the stamp duty value on the date of registration (i.e. ₹ 150 lakh) and the purchase price (i.e. ₹ 75 lakh) would be chargeable as short – term capital gains.	Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration.
It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account on or before the date of agreement in this case, since the payment on the date of agreement is made by crossed cheque, the option cannot be exercised.	Therefore, 60 lakh, being the difference between the stamp duty value of the property of the date of registration (i.e. ₹ 150 lakh) and the actual consideration (i.e. ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque / draft or ECS.

Answer 3

The entire interest of ₹ 5,00,000 would be taxable in the year of receipt, namely, P.Y. 2023-24.

Particulars	₹
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) @ 50%	(2,50,000)
Interest chargeable under the head “Income from other sources”	2,50,000

Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as ‘Income from other sources’. 50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

Computation of interest on enhanced compensation taxable as “Income from other sources” for the A.Y. 2024-25:

Particulars	₹
Interest on enhanced compensation taxable under section 56(2)(vii)	5,00,000
Less: Deduction under section 57(iv) (50% x ₹ 5,00,000)	(2,50,000)
Taxable interest on enhanced compensation	2,50,000

Answer 5

(i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.

The gift of ₹ 51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali.

(ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister is not taxable under section 56(2)(x), even though jewellery falls within the definition of “property”.

(iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual’s son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds 50,000 in a year. “Sum of money” has, however, not been defined under section 56(2)(x).

Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs. Hemali –

- (1) The first view is that fixed deposit does not fall within the meaning of “sum of money” and therefore, the provisions of section 56(2)(x) are not attracted. It may be noted that fixed deposit is also not included in the definition of “property”.
- (2) However, another possible view is that fixed deposit assigned in favour of Mrs. Hemali falls within the meaning of “sum of money” received.

Income assessable as “income from other sources”

If the first view is taken, the total amount chargeable to tax as “income from other sources” would be ₹ 51,000, being cash gift received from a friend on her Shastiapha Poorthi.

As per the second view, the provisions of section 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the “Income from other sources” of Mrs. Hemali would be ₹ 1,02,000 (₹ 51,000 + ₹ 51,000).

Answer 6

- (i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.
Thus, share received by M/s B. Co. (P) Ltd. from Mr B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.
As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of R (P) Ltd. fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares.
The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,45,000) would result in a long term capital gains of ₹ 55,000 in the hands of Mr. B.
- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AA or u/s 12AB. Therefore, the cash gift of ₹ 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AA or u/s 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chezian.

CLUBBING OF INCOME

INTRODUCTION :

Generally, an assessee is taxed in respect of his own income. In some cases, however, the Income-tax Act deviates from this principle and the assessee may be taxed in respect of income which legally belongs to some other person. Provisions incorporated in sections 60 to 65 deal with cases where taxpayers make an attempt to reduce their tax liability by transferring their assets in favour of their family members or by arranging their sources of income in such a manner that tax incidence falls on others, whereas benefit of income, directly or indirectly, is derived by them. In order to counteract these practices of tax avoidance, necessary provisions have been made in sections 60 to 65 to tax the incomes in the hands of an individual, even though such incomes belong to other persons. This is called as clubbing of income.

SECTION 60 - TRANSFER OF INCOME WITHOUT TRANSFER OF ASSET

Section 60 is applicable if the following conditions are satisfied –

- Condition 1** The taxpayer owns an asset.
- Condition 2** The ownership of asset is not transferred by him.
- Condition 3** The income from the asset is transferred to any person under a settlement, trust, covenant, agreement or arrangement.
- Condition 4** The above transfer of income may be revocable or irrevocable.
- Condition 5** The above transfer may be effected at any time (maybe before the commencement of the Income-tax Act or after the commencement of the Act, i.e., before or on or after April 1, 1962).

If the above conditions are satisfied, the income from the asset would be received by the transferee but it shall be clubbed in the hands of the transferor i.e. it will be included in the taxable income of the transferor.

Example

X owns land, he transfers rental income to Y, his friend, without transferring the ownership of this land. Although, during P.Y. 2022-23, rent of ₹ 96,000 is received by Y, it is taxable

in the hands of X, as he has transferred income without transferring the ownership of the asset.

SECTION 61 - REVOCABLE TRANSFER OF ASSETS

If an asset is transferred under a “revocable transfer”, income from such asset is taxable in the hands of the transferor. In case of a revocable transfer, the ownership of the asset is transferred to the transferee, but the transfer is cancellable at any time by the transferor. Since the asset is with the transferee, the income from the asset will be received by the transferee during the previous year. However, such income shall be clubbed in the hands of the transferor.

It may be noted that the income is taxable for the transferor as and when the power to revoke arises, even if the power to revoke has not been exercised by the transferor.

SECTION 62 - IRREVOCABLE TRANSFER OF ASSETS FOR A SPECIFIED PERIOD

In the following cases, the transfer of assets shall be treated as irrevocable for the period mentioned therein (called as “specified period”). In other words, the power to revoke or cancel the transfer arises to the transferor only after the specified period is over. The cases covered are as follows:

- (a) The transfer of asset is made before 1st April 1961 and is irrevocable for a period of atleast 6 years.
- (b) The transfer of asset is irrevocable during the lifetime of the transferee.
- (c) The transfer of asset is made to a trust and is irrevocable during the lifetime of the beneficiary/ beneficiaries.

In the above cases, the transferor should not derive any direct or indirect benefit from the income from the asset during the specified period.

During the specified period, the income from the asset shall be taxable for the transferee. After the specified period is over, the income from the asset shall be clubbed with the transferor.

Sr. No.	Situation	Tax implication
1	X transfers a house property to a trust for the benefit of A and B. However, X has a right to revoke the trust during the lifetime of A and/or B.	In this case, the house property is transferred under a trust and it is revocable during the lifetime of the beneficiary . It is a revocable transfer and income arising from the house property is taxable in the hands of X.

2	X transfers a house property to A. X has a right to revoke the transfer after the death of A.	In this case, the house property is transferred to a person and it is irrevocable during the lifetime of transferee. Income arising from the house property is taxable in the hands of A during his lifetime and after death of A, income shall be taxable for X.
3	X transfers debentures to A in PY 2023-2024. X has a right to revoke the transfer after 10 years.	In this case, the debentures are transferred to a person and it is not irrevocable during the lifetime of transferee. It is revocable after a fixed period. Since the given case does not get covered by section 62, it is regarded as a “revocable transfer” and income arising from the debentures is taxable in the hands of X as per section 61.
4	X transfers an asset to Y on January 1, 1960. It is revocable on or before June 6, 1965. It is a revocable transfer.	In this case, the asset is transferred before April 1, 1961 but it is revocable within six years. Income arising from the asset is taxable in the hands of X.
5	X transfers an asset to Y on April 1, 1958. It is revocable on or after March 31, 2023.	It is an irrevocable transfer as the transfer was made before 1-4-1961 and is irrevocable for atleast 6 years (in this case, 60+years). Income arising from the asset upto 31st March 2023 is taxable in the hands of Y. Thereafter the income will be taxable for X, even if the power to revoke has not been exercised.
6	X transfers an asset to Z. Under the terms of transfer, on or after April 1, 2023, he has a right to utilize the income of the asset for his benefit. However, he has not exercised this right as yet.	If the transfer contains any provision to re-transfer the asset (or income therefrom) to the transferor directly or indirectly, wholly or partly, such a transfer cannot be regarded as an irrevocable transfer u/s. 62 . It will be considered as a “revocable transfer” u/s. 61. On or after April 1, 2023, income of the asset would be taxable in the hands of X, even if he has not exercised the aforesaid right.

WHEN AN INDIVIDUAL IS ASSESSABLE IN RESPECT OF REMUNERATION OF SPOUSE [SEC. 64(1)(ii)]

Section 64(1)(ii) is applicable if the following conditions are satisfied –

- Condition 1** The taxpayer is an individual.
- Condition 2** He / she has a **substantial interest** in a concern.
- Condition 3** Spouse of the taxpayer (i.e., husband / wife of the taxpayer) is deriving salary, fees, commission or **remuneration** from the above-mentioned concern.
- Condition 4** Spouse does not possess any technical or professional knowledge or experience.

If the aforesaid conditions are satisfied, then salary, fees, commission or remuneration of the spouse will be clubbed in the hands of the taxpayer.

Example

X has a substantial interest in A Ltd. and Mrs. X is employed by A Ltd. without any technical or professional qualification to justify the remuneration. In this case, salary income of Mrs. X shall be taxable in the hands of X.

Other points: One has to keep in view the following points –

- (a) **Meaning of Substantial Interest:** An individual has a “substantial interest” in any of the following two situations –
 - (i) In the case of a company - If the individual beneficially holds (individually or along with his relatives) atleast 20 per cent of voting power in the company **at any time during the previous year.**
 - (ii) In the case of a concern other than company - If an individual is entitled to atleast 20 per cent share in profit in the concern (individually or along with his relatives) **at any time during the previous year.**
- (b) **Relative-** Relative, in relation to an individual, means the husband, wife, brother or sister or any lineal ascendant or descendant of that individual.
- (c) **Concern:** The expression “concern” covers both business concern and professional concern and both proprietary and non-proprietary concerns.
- (d) If once clubbing is done in the hands of X, salary of X and Mrs. X will be included in the income of X (in the subsequent years), even if income of X is lower than that of Mrs. X in that year. In such a case, the Assessing Officer can club the income of X and Mrs. X in the hands of Mrs. X only if the Assessing Officer is satisfied that it is necessary to do so. The Assessing Officer can take such action only after giving Mrs. X an opportunity of being heard.

TWO WAY CLUBBING:

When both husband and wife have substantial interest in a concern, both are in receipt of the remuneration from such concern and such remuneration is received without any technical and professional qualification, then both the remunerations will be clubbed in the hands of husband or wife whose total income, excluding such remuneration, is greater.

Question:

X holds 30 per cent equity share capital in Y Ltd. Mrs. X is employed by Y Ltd. (salary being ₹ 1,40,000 per month) as general manager (finance). She does not have any professional qualification to justify the remuneration. Ascertain in whose hands salary income is chargeable to tax. Does it make any difference if Mrs. X was employed by Y Ltd. even prior to her marriage?

Solution:

In this case, X has substantial interest in Y Ltd. where Mrs. X is employed. Mrs. X does not have any professional qualification to justify the remuneration of ₹ 1,40,000 per month. Her salary income of ₹ 16,80,000 (i.e., ₹ 1,40,000 x 12) will be taxable in the hands of X. It does not make any difference even if Mrs. X was employed by Y Ltd. prior to her marriage.

WHEN AN INDIVIDUAL IS ASSESSABLE IN RESPECT OF INCOME FROM ASSETS TRANSFERRED TO SPOUSE [SEC. 64(1)(iv)]

The following conditions should be satisfied –

- Condition 1** The taxpayer is an individual.
- Condition 2** He / she has transferred an asset (other than a house property).
- Condition 3** The asset is transferred to his/her spouse for no consideration or inadequate consideration.
- Condition 4** The transfer may be direct or indirect.

If the above conditions are satisfied, any income from such asset shall be deemed to be the income of the individual who is the transferor of the asset.

It is irrelevant whether the asset is held by the transferee-spouse in the same form or in a different form. For instance, where cash is gifted by an assessee to his wife and the wife purchases debentures using such cash, interest income is included in the assessee's total income.

Example

X transfers 100 debentures of IFCI to his wife without adequate consideration. Interest income on these debentures will be included in the income of X.

The income from asset transferred must be calculated in the same way as it would be if the asset has not been transferred. Exemptions, deductions or tax incentives in respect of such income shall be allowed to the transferor and only the net income shall be clubbed.

ANALYSIS OF CONDITIONS

Condition 1 - Asset is transferred by an individual : This provision of clubbing is applicable if the transferor is an individual (i.e., husband or wife). If the transferor is a person other than an individual then the above provisions are not applicable.

Condition 2 - An asset other than a house property is transferred : To attract this section, an asset other than a house property should be transferred. If a house property is transferred for no or inadequate consideration, then the transferor is “deemed” as owner of the property under section 27.

Condition 3 - Relationship of husband and wife: The relationship of husband and wife should subsist both at the time of transfer of asset and at the time when income is accrued (generally at the end of the previous year). It means that transfer of asset before marriage is outside the scope of this section. For instance, X transfers 1,000 debentures of IFCI without consideration to his finance Miss Y on April 10, 2021. Interest income from these debentures will not be taxable in the hands of X even after their marriage. Similarly, if transferor-spouse dies, the income, although continued to be enjoyed by the transferee, cannot be included in the income of deceased transferor’s heir, as a widow or widower is not a spouse.

Condition 4 - Transfer includes “indirect” transfer: If two or more transfers are inter-connected and are parts of the same transaction, the aforesaid rule of clubbing is applicable.

For instance, if X gifts or cross transfers ₹ 10,000 to Mrs. A and A gifts property worth ₹ 10,000 to Mrs. X, the transaction would be indirect transfer without consideration by X to Mrs. X and by A to Mrs. A. The clubbing provisions shall apply in the same manner in which they would have applied in case of direct transfer.

If an individual transfers an asset without consideration to his wife who sells it at a profit, capital gain arising to wife on sale of asset is chargeable to tax in the hands of the individual.

CLUBBING WHEN TRANSFERRED ASSET IS INVESTED IN A BUSINESS: An asset (maybe in cash or kind) is transferred by individual to his/her spouse (directly or indirectly) for no or inadequate consideration. The spouse invests the asset in a business. The amount of income that will be clubbed in the hands of the individual will be determined as follows –

Step one Find out total investment of transferee-spouse in the business **on the first day of the previous year.**

Step two Find out the amount invested by the transferee-spouse in the said business out of the assets transferred to him/her for no or inadequate consideration by the individual **on the first day of the previous year.**

Step three Find out the taxable income (exempt income is not included) of the transferee-spouse from the business. If the transferee-spouse becomes a partner of a firm by investing the aforesaid asset then only interest income from the firm is considered under Step three. Share of profit from the firm is not considered under Step three as it is exempt under section 10(2A).

Step four The amount which shall be included in the hands of transferor is determined as follows – Step three × Step two ÷ Step one.

When clubbing is not applicable:

On the basis of the aforesaid discussion and judicial pronouncements, section 64(1)(iv) is not applicable in the following cases and the income will be taxable for the spouse:

- If assets are transferred before marriage.
- If assets are transferred for adequate consideration.
- If assets are transferred in connection with an agreement to live apart.
- If on the date of accrual of income, transferee is not spouse of the transferor.
- If asset is acquired by the spouse out of pin money
- Income arising from accretions to transferred assets. If an assessee gifts debentures of a company to the spouse and, subsequently, the company issues bonus debentures to the spouse, interest on bonus debentures will not be includible in the hands of the assessee under section 64(1)(iv) as there is no transfer of bonus debentures by the assessee to the spouse.

WHEN AN INDIVIDUAL IS ASSESSABLE IN RESPECT OF INCOME FROM ASSETS TRANSFERRED TO SON'S WIFE [SEC. 64(1)(vi)]

One has to satisfy the following conditions –

Condition 1 The taxpayer is an individual.

Condition 2 He / she has transferred an asset.

Condition 3 The asset is transferred to his/her son's wife for no consideration or inadequate consideration.

Condition 4 The transfer may be direct or indirect.

If the above conditions are satisfied, then income from the asset is included in the income of the taxpayer who has transferred the asset.

WHEN AN INDIVIDUAL IS ASSESSABLE IN RESPECT OF INCOME FROM ASSETS TRANSFERRED TO A PERSON FOR THE BENEFIT OF SPOUSE [SEC. 64(1)(vii)]

One has to satisfy the following conditions—

Condition 1 The taxpayer is an individual.

Condition 2 He/she has transferred an asset.

Condition 3 The transfer may be direct or indirect.

Condition 4 The asset is transferred to a person or an association of persons for no or inadequate consideration.

Condition 5 It is transferred for the immediate or deferred benefit of his/her spouse.

If the aforesaid conditions are satisfied then income from such asset to the extent of such benefit is taxable in the hands of the taxpayer who has transferred the asset.

WHEN AN INDIVIDUAL IS ASSESSABLE IN RESPECT OF INCOME FROM ASSETS TRANSFERRED TO A PERSON FOR THE BENEFIT OF SON'S WIFE [SEC. 64(1)(viii)]

One has to satisfy the following conditions –

Condition 1 The taxpayer is an individual.

Condition 2 The asset is transferred to any person or an association of persons for no or inadequate consideration..

Condition 3 Transfer may be direct or indirect.

Condition 4 The asset is transferred for the immediate or deferred benefit of his/her son's wife.

If the above conditions are satisfied, then income from the asset to the extent of such benefit is included in the income of the taxpayer who has transferred the asset.

WHEN AN INDIVIDUAL IS ASSESSABLE IN RESPECT OF INCOME OF HIS MINOR CHILD [SEC. 64(1A)]

All income which arises or accrues to the minor child shall be clubbed in the income of his parent.

Clubbing in the hands of father or mother: The income of minor will be included in the income of that parent whose total income [excluding the income includible under section 64(1A)] is greater.

The following points should be noted –

1. A is minor child of X and Mrs. X. During P.Y. 2023-24, income of A is ₹ 2,500 (this is the first income of A during his life time). During P.Y. 2023-24 income of X is higher than that of Mrs. X. Consequently, income of A will be included in the income of X for P.Y. 2023-24. In the subsequent years (during the minority of A), income of A will be included in the income of X, even if income of Mrs. X is higher than that of X in any of the subsequent years. However, there is one exception. If in the subsequent year, the Assessing Officer wants to include the income of minor child A in the hands of Mrs. X, it can be done only if it is necessary to do so and that too after giving an opportunity of being heard to Mrs. X.
2. Where the marriage of the parents does not subsist, the income of minor will be includible in the income of that parent who maintains the minor child in the relevant previous year.

When clubbing is not attracted: In the cases given below, clubbing provisions of section 64(1A) are not applicable –

1. Income of minor child (from all sources) suffering from any disability of the nature specified under section 80U is not subject to clubbing provision given above.
2. Income of minor child on account of any manual work.
3. Income of minor child on account of any activity involving application of his skill, talent or specialized knowledge and experience.

Exemption under section 10(32): In case the income of an individual includes an income of his or her minor child in terms of section 64(1A), such individual shall be entitled to a maximum exemption of ₹ 1,500 in respect of each minor child.

CLASSWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

The following are the particulars of income earned by Mr. Chandrapal and his family members

	Particulars	₹
(i)	Income from Chandrapal's profession	2,50,000
(ii)	Mrs. Chandrapal's computed salary as primary teacher	1,06,000
(iii)	Minor son Arav (interest on fixed deposits with a bank which were gifted to him by his uncle)	12,000
(iv)	Arav also has income by way winnings from lottery (gross)	2,20,000
(v)	Minor daughter Pallavi's earnings from sports	1,05,000
(vi)	Cash gift received by minor married daughter Garima from friend of Mrs. Chandrapal	55,000
(vii)	Income of minor son Arvind, who suffers from disability specified in section 80U	1,20,000

Discuss the tax implications in the hands of Mr. Chandrapal and Mrs. Chandrapal.

Question 2

Mr. Ramesh gifted a sum of ₹ 5 lacs to his brother's minor son on 1-4-2023. On 18-4-2023, his brother gifted debentures worth ₹ 6 lacs to Mrs. Ramesh. Son of Mr. Ramesh's brother invested the amount in fixed deposit with Bank of India 9% p.a. interest and Mrs. Ramesh received interest of ₹ 45,000 on debentures received by her.

Discuss the implications under the provisions of the Income-tax Act, 1961.

Question 3

A Proprietary Business was started by Smt. Rani in the year 2010. As on 1.4.2022 her capital in business was ₹ 3,00,000.

Her husband gifted ₹ 2,00,000, on 10.4.2022, which amount she invested in her business on the same date. She earned profits from her proprietary business for the Financial Year 2022-23 ₹1,50,000 and Financial Year 2023-24 ₹3,90,000.

Compute the income to be clubbed in the hands of Rani's husband for the A.Y. 2024-2025 with reasons.

Question 4

Mr. Ram gifted ₹ 20,00,000 to his wife. She purchased a house worth ₹ 50,00,000. The source of funds were :

- (i) ₹ 20,00,000 gift from her husband.
- (ii) ₹ 10,00,000 personal assets.
- (iii) ₹ 20,00,000 loan from a private party on interest of 10% p.a.

She rented the building at ₹ 80,000 per month. After payment of the Interest on Loan, she invested surplus amount of rental income with a merchant, which yielded an interest income of ₹ 70,000.

The Assessing Officer wants to add the rental income and interest income in the income of her husband. Is the Assessing Officer justified in his action?

Question 5

Divya is born on 7.6.2008. Her betrothal took place on 5.3.2022. On the said day she received cash gifts of ₹ 50,000 each from her father, father's mother, father's father, mother, mother's mother, and mother's father. All the six relatives made similar gifts on the day of marriage i.e., on 1.4.2023. The amount so received is deposited in a private limited company in which her husband has substantial interest. For the year ending 31.3.2024, the company has paid her interest @ 14% i.e. ₹ 84,000.

Discuss how this income will be assessed to income-tax for P.Y. 23-24 A.Y. 24-25 only.

Question 6

Compute the gross total income of Mr. & Mrs. A from the following information:

	Particulars	₹
a.	Salary income (computed) of Mrs. A	2,30,000
b.	Income from profession of Mr. A	3,90,000
c.	Income of minor son B from company deposit	15,000
d.	Income of minor daughter C from special talent	32,000
e.	Interest from bank received by C on deposit made out of her special talent	3,000
f.	Gift received by C on 30.09.2023 from friend of Mrs. A	2,500

Brief working is sufficient. Detailed computation under various heads of income is not required.

Question 7

During the previous year 2023-24, the following transactions occurred in respect of Mr. A.

- (a) 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.
- (b) Mr. A holds 75% share in a partnership firm. Mrs. A received a commission of ₹ 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.
- (c) 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
- (d) 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.
- (e) 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.

Discuss the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child.

CLASSWORK SOLUTIONS

Answer 1

As per the provisions of section 64(1A), in case the marriage of the parents subsist, the income of a minor child shall be clubbed in the hands of the parent whose total income, excluding the income of the minor child to be clubbed, is greater. In this problem, it has been assumed that the marriage of Mr. Chandrapal and Mrs. Chandrapal subsists.

However, in case the income arises to the minor child on account of any manual work done by the child or as a result of any activity involving application of skill, talent, specialized knowledge or experience of the child, then, the same shall not be clubbed in the hands of the parent.

Further, the income of minor child suffering from disability of the nature specified under section 80U shall also not be included in the hands of parents.

Tax implications

- (i) Income of ₹ 2,50,000 from Mr. Chandrapal's profession shall be taxable in the hands of Mr. Chandrapal under the head 'Profits and gains of business or profession'.
- (ii) Salary of ₹1,06,000 received by Mrs. Chandrapal as a Primary teacher shall be taxable as 'Salaries' in the hands of Mrs. Chandrapal.
- (iii) Income from fixed deposit of ₹ 12,000 arising to the minor son Arav, shall be clubbed in the hand of the father, Mr. Chandrapal as "Income from other sources". since Mr. Chandrapal's income is greater than the income of his wife before including the income of the minor child.

As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child. The balance income would be clubbed in the hand of the parent as "Income from other sources".

Therefore, ₹ 10,500 would be clubbed in the hands of Mr.Chandrapal.

- (iv) income of ₹ 2,20,000 arising to minor son Aray from lottery shall be included in the hands of Mr. Chandrapal as "Income from other sources" since Mr. Chandrapal's income is greater than the income of his wife before including the income of minor child.

Note – Mr. Chandrapal can reduce the tax deducted at source from such lottery income while computing his net tax liability.

- (v) Income of ₹ 1,05,000 arising to the minor daughter Pallavi from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.

- (vi) The clubbing provisions are attracted even in respect of income of minor married daughter. As per section 56(2)(x), cash gifts received from any person/persons exceeding ₹ 50,000 during the year in aggregate is taxable. Since the cash gift in this case exceeds ₹ 50,000, the amount of ₹ 55,000 shall be taxable under section 56(2)(x). This amount shall be clubbed in the hands of Mr. Chandrapal and exemption under section 10(32) of ₹ 1,500 per child shall be allowed in his hands.
- (vii) Income of minor son Arvind, who suffers from disability specified under section 80U, shall not be included in the hands of either of his parents.

Answer 2

In the given case, Mr. Ramesh gifted a sum of ₹ 5 lacs to his brother's minor son on 1-4-2023 and simultaneously, his brother gifted debentures worth ₹ 6 lacs to Mr. Ramesh's wife on 18-4-2023. Mr. Ramesh's brother's minor son invested the gifted amount of ₹ 5 lacs in fixed deposit with Bank of India.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

As per section 64(1A), all income of a minor child is includible in the hand of the parent, whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Ramesh's brother's son from fixed deposits would be included in the total income of Mr. Ramesh's brother, assuming that Mr. Ramesh's brother's total income is higher than his wife's total income, before including minor's income. Mr. Ramesh's brother can claim exemption of ₹ 1,500 under section 10(32).

Interest on debentures arising in the hands of Mrs. Ramesh would be taxable in the hands of Mr. Ramesh as per section 64(1)(iv).

This is because both Mr. Ramesh and his brother are the indirect transferors of the income to their spouse and minor son, respectively, with an intention to reduce their burden of taxation.

In the hands of Mr. Ramesh Interest received by his spouse on debentures of ₹ 5 lacs alone would be included and not the entire interest income on the debentures of ₹ 6 lacs, since the cross transfer is only to the extent of ₹ 5 lacs.

Hence, only proportional interest (i.e., 5/6th of interest on debentures received) ₹ 37,500 would be includible in the hand of Mr. Ramesh.

The provisions of section 56(2)(vii) are not attracted in respect of sum of money transferred of value of debentures transferred, since in both the cases, the transfer is from a relative.

Answer 3

There will be no clubbing of income in the hands of Rani's husband for P.Y. 2022-2023 since the gift amount has been invested by Smt. Rani in the business **during P.Y. 2022-23 and not on the first day of the year**. The entire profit of ₹ 1,50,000 shall be taxable for Smt. Rani.

The profit for P.Y. 2023-2024 shall be clubbed in the hands of Rani's husband u/s. 64(1) (iv) as follows:

Total investment in business on 1-4-2023

Opening Balance on 1-4-2022	3,00,000
Add: Gift amount invested in business on 10-4-2022	2,00,000
Add: Profit for P.Y. 2022-2023	1,50,000
Closing Balance on 31-3-2023 i.e. Balance on 1-4-2023	6,50,000

Amount to be clubbed =

$$\frac{\text{Gift amount invested in business on the first day of P.Y.}}{\text{Total investment in business on the first day of P.Y.}} \times \text{Taxable Profits}$$

$$\frac{\text{₹ 2,00,000}}{\text{₹ 6,50,000}} \times 3,90,000 = \text{₹ 1,20,000}$$

Amount taxable for Smt. Rani = ₹ 3,90,000 – ₹ 1,20,000 = ₹ 2,70,000/-

Answer 4

Mr. Ram has gifted cash which was subsequently utilized to purchase a house property. So the provision of deemed owner u/s/ 27 shall not apply. The rent income from the property shall be clubbed in the hands of Mr. Ram u/s. 64(1)(iv) in proportion of capital invested i.e. gift amount & balance income will be taxable in the hands of Mrs. Ram.

The interest income is generated out of investment of surplus rent income. This implies that interest is "Income on already clubbed Income" and accordingly cannot be clubbed in the hands of Mr. Ram. The interest shall be taxable for Mrs. Ram.

Answer 5

Such interest income will be clubbed u/s 64(1A) in that parent's hands whose income prior to such clubbing is higher, after allowing exemption u/s 10(32) of ₹ 1,500 or the income clubbed (whichever is least).

Even if the amount is invested in an organisation in which her husband is substantially interested, the clubbing provisions u/s 64(1)(ii) will not be attracted as interest is not remuneration but return on investment. The amount invested by Divya is not gifted by her husband and hence, clubbing u/s. 64(1)(iv) is also not attracted. All income of the minor, including minor married daughter, is clubbed with the parent u/s 64(1A).

After attaining majority, such interest income will be taxable in the hands of Divya.

Interest received	=	84,000
(-) Exempt u/s 10(32)	=	(1,500)
Clubbed u/s 64(1A)	=	<u>82,500</u>

SET OFF & CARRY FORWARD OF LOSSES

WHAT IS THE MODE OF SET OFF AND CARRY FORWARD

The process of setting off of losses and their carry forward may be covered in the following steps:

- Step 1** : Inter-source adjustment under the same head of income u/s 70.
- Step 2** : Inter-head adjustment in the same assessment year u/s 71. Step 2 is applied only if a loss cannot be set off under step 1.
- Step 3** : Carry forward of a loss. Step 3 is applied only if a loss cannot be set off under Steps 1 and 2.

Inter source adjustment (Sec. 70):

General rule – If the net result for any assessment year, in respect of any source under any head of income, is a loss, the assessee is entitled to have the amount of such loss set off against his income from any other source under the same head of income for the same assessment year.

Exceptions

Loss from speculation business: Loss in a speculation business can be set off only against the profits in a speculation business.

→ **Note:**

- ❖ Loss from non-speculation business can be set off against other non-speculation business profits and if not fully set off, then it can be set off against speculation business profits also.
- ❖ Loss from a specified business – Any loss, computed in respect of any specified business referred to in section 35 AD, shall not be set off except against profits and gains, if any other specified business.

→ **Loss from the activity of owning and maintaining race horses** – Loss incurred in the business of owning and maintaining race horses cannot be set off against income, if any, from any other source, except, income from such business in the future.

→ **Note:**

❖ Although it is a business income, but it is taxable under income from other sources, since it promotes gambling.

→ **Loss cannot be set off against winnings from lotteries, crossword puzzles, etc.**- As per section 58 a loss cannot be set off against winnings from lotteries, crossword puzzles, races including horse races, card game and other games of any sort or from gambling or betting of any form or nature.

→ **Long - term capital loss can be set off only against long - term capital gains** i.e. it cannot be set off against short term capital gains.

Note :

❖ Short term capital loss can be set off against any other short term capital gains as first priority and if not fully set off, then set off against long term capital gains if any.

INTER-HEAD ADJUSTMENT – HOW MADE [SEC. 71]

General rule – Where the net result of computation made for any assessment year in respect of any head of income is a loss, the same can be set off against the income from other heads.

Provisions illustrated – X has two non-speculative businesses – Business A and Business B. Besides he has income from house property. The result of the three sources of income is given below:

	Business income	Property income
Business A	₹	₹
Business B	(-) 2,90,000	
Income from house property	70,000	5,10,000
Total	(-) 2,20,000	5,10,000

In this case, business loss of ₹ 2,20,000 can be adjusted against property income of ₹ 5,10,000. Consequently, the property income is reduced to ₹ 2,90,000. It may be noted that X does not have any option to set off (or not to set off) the business loss against property income.

Exceptions- The following are the exceptions to the aforesaid rule–

→ **Loss in a speculation business** - Loss in a speculation business cannot be set off against any other income.

- **Loss in a business specified under section 35AD** - Loss, computed in respect of any specified business referred to in section 35AD cannot be set off against any other income.
- **Loss under the head "Capital gains"** - Losses under the head "Capital gains" cannot be set off against any income except income under the head "Capital gains".
- **Loss from the activity of owning and maintaining race horses** - Losses from the activity of owning and maintaining race horses cannot be set off against any other income.
- **Business loss cannot be set off against salary income'** - Loss from business or profession (including depreciation) cannot be set off against income under the head "Salaries".
- **Loss cannot be set off against winnings lotteries, etc.** - By virtue of section 58(4) a loss cannot be set off against winnings from lotteries, crossword puzzles, races (including horse races), card games and other games of any sort or from gambling or betting of any form or nature.
- **Loss from house property** cannot be set off more than 2 lakhs against any other head of income.

Sec. 71B : Carry forward and set off of loss from house property

Loss to the extent not set off u/s 70 & 71, is allowed to be carried forward for set off against future income from house property only, for a maximum of 8 assessment years immediately after the end of the relevant assessment year in which the loss was suffered.

Sec. 72 : Carry forward and set off of non-speculation business losses :

Non-speculation business loss to the extent not set off u/s 70 & 71, is allowed to be carried forward for set off against the profits and gains of any business (non-speculation as well as speculation) and not necessarily the same business income of the future.

Even if the business to which such loss relates is discontinued, **yet** the loss is entitled to be **carried forward for a maximum period of 8 assessment years from the end of assessment year of loss**, failing which the unabsorbed loss is lost i.e. not allowed to be carried forward.

Unabsorbed depreciation under sec. 32(2): Unabsorbed depreciation allowance (U.A.D.) will be set off and carried forward as follows :

- (1) Normally entitled depreciation is allowed as a deduction to the maximum extent of available profits prior to claiming depreciation, but after claiming all other deductions, i.e. to the maximum extent to bring the profits to NIL.

A person cannot create a loss or cannot increase an already existing cash loss, by claiming depreciation.

The portion of depreciation which could not be allowed as a deduction is known as unabsorbed depreciation (i.e. U.A.D).

- (2) Such U.A.D can be set off u/s 70 against any business income (non-speculation or speculation)
- (3) If not fully set off u/s 70 as above, then the unabsorbed portion can be set off u/s 71 against any another income of the assessee for the same year except salary and casual winnings.
- (4) U.A.D. (after sec 70 & 71) will be carried forward u/s 32(2) to be set off against any income (except casual winnings & salaries) till it is fully set off, **i.e. without any time limit, even if the business to which such U.A.D. relates, is no longer in existence in the year of set off.**

However the priority of set off of U.A.D. **in the subsequent years against subsequent year's income from business or profession** would be:

- ❖ 1st priority to current depreciation of the subsequent year.
- ❖ 2nd priority to subsequent year's any other business loss u/s 70
- ❖ 3rd priority to any other head's loss u/s 71 (i.e. loss under The head "income from house property" or "income from other sources" which remains unabsorbed after applying section 70 provisions) of the subsequent year.
- ❖ 4th priority to brought forward business loss u/s 72 within the time limit of 8 years.
- ❖ If still some positive income remains after above set off, under subsequent year's income from business , then the 5th priority to unabsorbed depreciation and the amount not set off can be set off against any other positive income of subsequent year except income from salaries & casual winnings.

Sec. 73 : Loss in speculation business.

- (1) This section allows such loss to be set off only against profit and gains of any other such speculation business of the same previous year, under sec. 70.
- (2) Unabsorbed speculation business loss will be carried forward and set off against speculation business profit of subsequent year u/s. 73.
- (3) Thus, speculative business loss cannot be set off against any other head of Income.

(4) It is allowed to be carried forward and set off for a period of **4 years** from the end of assessment year of loss.

The business in which speculation loss is incurred may be discontinued in the relevant year of set off.

Sec.73A : Losses in specified business u/s 35AD

→ Any loss, computed in respect of any specified business referred to in section 35AD shall not be set off except against profits and gains, if any, of any other specified business. In case of Hotel and Hospital business, such loss can be set off against the profit of another specified business, whether OR NOT the latter is eligible for deduction u/s. 35AD.

→ If any loss remains unabsorbed as above, it shall be carried forward and set off against any income of any specified business of the next assessment year / years till it is fully set off, without any time limit.

Sec. 74 : Loss under the head Capital Gains :

This section permits loss under the head capital gains to be carried forward and set off against Income under the head Capital Gains of subsequent year as under:

(i) Unabsorbed short term capital losses can be carried forward and set off against short term or long term capital gains.

Unabsorbed long term capital loss can be carried forward and set off against long - term capital gains only.

(ii) Thus loss under capital gains cannot be set off against any other head of income.

(iii) Carry forward is allowed for a maximum of 8 years from the end of assessment year of loss.

Sec. 74 A : Loss from the activity of owning and maintaining horses for racing :

(a) This section permits it to be carried forward in the subsequent years.

(b) It cannot be adjusted against any other head of income in the same year.

(c) In the subsequent years it can be set off only against the income of the same activity.

(d) Such carry forward is allowed only for period of 4 years from the end of assessment year of loss.

Sec 80: Submission of return of losses

According to this section carry forward and set off of only **“Assessed Loss”** will be allowed (and not the “returned loss” as per the return of income).

It is compulsory to file return of income u/s 139(3) in case of a loss

[u/s 139(3) filing of 'return of income' on or before the due date as specified u/s 139(1):-

- 31/10 of assessment year if audit is compulsory
- 30/11 of assessment year if there is an international transaction
- 31/7 of assessment year in any other case].

However in the case of the following, the loss will be allowed to be carried forward and set off, even if the return is not filed on or before its due date :-

- House property loss u/s 71B
- U.A.D u/s 32(2)

SET - OFF AT A GLANCE

	Heads of Income, i.e. loss under the head	In the same year		Carry forward to subsequent years		
		Under same head u/s. 70	Under other head u/s.71 in the same P.Y. Except casual winnings	Allowed or not	Set off against which head	For how many years
1.	Income from Salary	N.A.	N.A.	N.A.	N.A.	N.A.
2.	Income from House property	Yes	Yes to the max extent of 2 lakhs	Yes u/s.71B	Same head	8 years
3.	Non-speculative business	Yes	Yes (except salary income)	Yes u/s.72	Same head	8 years
4.	Unabsorbed depreciation (U.A.D)	Yes	Yes (except salary income)	Yes u/s 32(2)	Any head except salary and casual winnings	No time limit
5.	Speculative business	Yes (only against speculative Income)	No	Yes u/s.73	Speculative Income only	4 years
6.	Losses in specified business u/s 35AD	Yes	No	Yes u/s 73A	Yes	No time limit
7.	Capital Gains (Short - term / long term) *	Yes	No	Yes u/s.74	Same head	8 years
8.	Activity of owning & maintaining and training horses for races under income from other sources.	No	No	Yes	Same activity u/s.74A	4 years
9.	Gambling	No	No	No	No	No
10.	Any other loss under income from other sources	Yes	Yes	No	No	No

* Short term against short term or long term, but long term only against long term.

CLASSWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2024:

Particulars	₹
Income from salaries (computed)	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Agriculture Income from India	1,10,000
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid	1,20,000

Compute the total income and show the items eligible for carry forward.

Question 2

Mr. Rajat submits the following information for the financial year ending 31st March, 2024. He desires that you should:

- Compute the total income and
- Ascertain the amount of losses that can be carried forward

	Particulars	₹
(i)	He has two houses:	
	(a) House No. I – Income after all statutory deductions	72,000
	(b) House No. II – Current year loss	(30,000)
(ii)	He has three proprietary businesses	
	(a) Textile Business :	
	(i) Discontinued from 31st October, 2022 – Current year loss	40,000
	(ii) Brought forward business loss of A.Y. 2018-19	95,000
	(b) Chemical Business :	
	(i) Discontinued from 1st March, 2020 – hence no profit / loss	Nil
	(ii) Bad debts allowed in earlier years recovered during this year	35,000
	(iii) 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 2005	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

Question 3

Compute the total income of Mr. Krishna for the assessment year 2024-25 from the following particulars:

Particulars	Amount (₹)
Income from business before adjusting the following items:	1,75,000
(a) Business loss brought forward from assessment year 2018-19	1,70,000
(b) Current year depreciation	40,000
(c) Unabsorbed depreciation of earlier year	1,55,000
Income from house property (Gross Annual Value)	4,32,000
Municipal taxes paid	32,000
Mr. Krishna sold a plot at Noida on 12th September, 2023 for a consideration of ₹ 6,40,000, which had been purchased by him on 20th December, 2020 at a cost of ₹ 4,10,000	
Long-term capital loss on sale of shares sold through recognized stock exchange (STT paid at acquisition and sale)	75,000
Long-term capital gain on sale of debentures	60,000
Dividend on shares held as stock in trade of a co-operative society	22,000
Dividend from a foreign company carrying on agricultural business in India	10,000

HOMEWORK PROBLEMS WITH SOLUTIONS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Compute the gross total income of Mr. E For the A.Y. 2024-25 from the information given below –

Particulars	₹
Income from house property (computed)	1,25,000
Income from business (before providing for current year depreciation)	1,35,000
Short term capital gains on sale of shares	56,000
Long term capital loss from sale of property (brought forward from A.Y. 2021-22)	(90,000)
Income from growing & manufacturing tea business	1,20,000
Current year depreciation	(26,000)
Brought forward business loss (loss incurred six years ago)	(45,000)

Answer

Gross Total Income of Mr. E for the A.Y. 2024-25

Particulars	₹	₹
Income from house property (Computed)		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	(26,000)	
Less: brought forward business loss	(45,000)	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Capital gains		
Short term capital gains		56,000
Gross Total Income		2,93,000

Note:

- (1) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;
- (2) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of ₹ 90,000 brought forward from A.Y. 2021-22 cannot be set-off in the A.Y. 2024-25, since there is no long-term capital gains in that year. It has to be carried forward for set-off against long-term capital gains, if any, during A.Y. 2025-26.

Question 2

Mr. Sohan submits the following details of his income for the assessment year 2024-25:

Particulars	₹
Income from salary (computed)	3,00,000
Loss from let out house property	(-) 40,000
Income from sugar business	50,000
Loss from iron one business b/f (discontinued in P.Y. 2017-18)	(-)1,20,000
Short term capital loss	(-) 60,000
Long term capital gain	40,000
Income received from lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural income	20,000
Long-term capital gain from equity shares (STT paid at the time of both acquisition and sale)	10,000
Short term capital loss under section 111A	(-) 10,000
Bank interest on Fixed deposit	5,000

Calculate gross total income and losses to be carried forward.

Answer

Computation of Gross Total Income of Mr. Sohan for the A.Y. 2024-25

Particulars	₹	₹
Salaries		
Income from salary (computed)	3,00,000	
Less: Loss from house property set-off against salary	(40,000)	2,60,000
income as per section 71		
Profits and gains of business or profession		
Income from sugar business	50,000	
Less: Brought forward loss from iron-ore business set-off as per section 72(1)	(50,000)	Nil
Balance business loss of ₹ 70,000 of P.Y. 2017-18 to be carried forward to A.Y. 2025-26		
Capital gains		
Long term capital gain	40,000	
Long-term capital gain form listed equity shares [Exempt upto ₹ 1 lakh]	---	
Less: Short term capital loss set-off	(40,000)	Nil

Balance short-term capital loss of ₹ 20,000 to be carried forward u/s 74		
Short-term capital loss of ₹ 10,000 under section 111A also to be carried forward u/s 74		
Income from other sources		
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank interest	5,000	61,000
Gross Total Income		3,21,000
Losses to be carried forward to A.Y. 2025-26		
Loss of iron-ore business (₹ 1,20,000 – ₹ 50,000)	70,000	
Short term capital loss (₹ 20,000 + ₹ 10,000)	30,000	

Notes:

1. Agricultural income i.e. exempt under section 10(1).
2. It is presumed that loss from iron-ore business relates to P.Y. 2017-18, the year in which the business was discontinued.
3. Long-term capital gain on sale of shares on which STT is paid both at the time of acquisition & sale is exempt upto ₹ 1 lakh.

Question 3

Mr. Batra furnishes the following details for year ended 31.03.2024:

Particulars	₹
Short term capital gain	1,40,000
Loss from speculative business	60,000
Long term capital gain on sale of land	30,000
Long term capital loss on sale of unlisted shares	1,00,000
Income from business of textile (after allowing current year depreciation)	50,000
Income from activity of owning and maintain race horses	15,000
Income from salary (computed)	1,00,000
Loss from house property	(40,000)

Following are the brought forward losses:

- (i) Losses from activity of owning and maintain race horses-pertaining to A.Y. 2020-21 ₹ 25,000.
- (ii) Brought forward loss from business of textile ₹ 60,000 – Loss pertains to A.Y. 2015-16.

Compute gross total income of Mr. Batra for the Assessment Year 2023-24. Also determine the losses eligible for carry forward to the Assessment Year 2025-26.

Answer

Computation of Gross Total Income of Mr. Batra for the A.Y. 2024-25.

Particulars	₹	₹
Salaries (computed)	1,00,000	60,000
Less: Current year loss from house property u/s 71	(40,000)	
Profit and gains of business or profession		NIL
Income from textile business	50,000	
Less: Loss from textile business brought forward from A.Y. 2016-17	(60,000)	
Balance business loss of A.Y. 2016-17 [See Note 1]	(10,000)	
Income from the activity of owning and maintain race horses	15,000	
Less: Loss from activity of owning and maintaining race	(25,000)	
Loss to be carried forward to A.Y. 2025-26 [See Note 2]	(10,000)	NIL
Capital Gain		1,40,000
Short term capital gain		
Long term capital gain on sale of land	30,000	
Less: Long term capital loss on sale of unlisted shares	(1,00,000)	
Loss to be carried forward to A.Y. 2025-26 [See Note 3]	(70,000)	NIL
Gross total Income		2,00,000

Losses to be carried forward to A.Y. 2025-26

Particulars	₹
Current year loss from speculative business [See Note-4]	60,000
Current year long term capital loss on sale of unlisted shares	70,000
Loss from activity of owning and maintaining of race horse pertaining to A.Y. 2021-22	10,000

Notes :

- (1) As per section 72(3), business loss can be carried forward for a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since the eight year period for carry forward of business loss of A.Y. 2016-17 expired in the A.Y. 2024-25, the balance unabsorbed business loss of ₹ 10,000 cannot be carried forward to A.Y. 2025-26.
- (2) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintain race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- (3) Long-term capital loss on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of ₹ 70,000 cannot be set-off against short term gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment years.
- (4) Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 73(4) to be set-off against income from speculation business.

Question 4

Mr. A furnishes you the following information for the year ended 31.03.2024:

		(₹)
(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 of garments (Computed as per books) (Sales turnover ₹ 1,21,70,000) Mr. A had declared income on presumptive basis under section 44AD for the first time in A.Y. 2023-24.	7,50,000
(iii)	He has brought forward unabsorbed depreciation relating to A.Y. 2021-22	(1,00,000)

Compute taxable income of Mr. A and his tax liability for the assessment year 2024-25 with reasons for your computation.

Answer

Computation of total income and tax liability of Mr. A for the A.Y. 2024-25

Particulars	(₹)
Income from retail trade – as per books (See Note 1 below)	7,50,000
Income from plying of vehicles – as per books (See Note 2 below)	3,20,000
	10,70,000
Less: Set off brought forward depreciation relating to A.Y. 2021-22 u/s 32(2)	(1,00,000)
Total income	9,70,000
Tax liability	1,06,500
Add: Health and Education cess @ 4%	4,260
Total tax liability	1,10,760

Note:

- Income from retail trade:** Presumptive business income under section 44AD is ₹ 9,73,600 i.e. 8% of turnover of ₹ 1,21,70,000 assuming the amount of sales turnover was received in cash. However, the income computed as per books is ₹ 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of ₹ 1,00,000. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books.

However, if he does not opt for presumptive taxation under section 44AD, he has to maintain books of account as per section 44AA and get his books of accounts audited section 44AB, because his case would be falling under section 44AD(4) and hence tax audit is mandatory.
- Income from plying of light goods vehicles:** Income calculated under section 44AE(1) would be ₹ 7,500 × 12 × 5 which is equal to ₹ 4,50,000. However, the income from plying of vehicles as per books is ₹ 3,20,000, which is lower than the presumptive income of ₹ 4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e. ₹ 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.

It is to be further noted that in both the above cases, had presumptive income provisions been opted, all deductions under sections 30 to 80, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

If the assessee opted for income to be assessed on presumptive basis, his total income would be as under:

Particulars	(₹)
Income from retail under section 44AD [₹ 1,21,70,000 @ 8%]	9,73,600
Income from plying of light goods vehicles under section 44AE [₹ 7,500 × 12 × 5]	4,50,000
	14,23,600
Less: Set off of brought forward depreciation – not possible as it is deemed that it has been allowed and set off	Nil
Total income	14,23,600
Tax thereon	2,39,580
Add: Health and Education cess @ 4%	9,583
Total tax liability	2,49,163
Total tax liability (rounded off) u/s 288B to the nearest multiple of ₹ 10/-	2,49,160

Question 5

Mr. Aditya furnishes the following details for the year ended 31-03-2024:

Particulars	Amount (₹)
Loss from speculative business A	(25,000)
Income from speculative business B	5,000
Loss from specified business covered under section 35AD	(20,000)
Income from salary (computed)	3,00,000
Loss from house property	(2,50,000)
Income from trading business	45,000
Long-term capital gain from sale of urban land	2,00,000
Long-term capital loss on sale of shares (STT not paid)	(75,000)
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	(1,02,000)

Following are the brought forward losses:

- (1) Losses from owning and maintaining of race horses pertaining to A.Y. 2021-22 ₹ 2,000.
- (2) Brought forward loss from trading business ₹ 5,000 relating to A.Y. 2018-19.

Compute the total income of Mr. Aditya and show the items eligible for carry forward.

Answer

Computation of total income of Mr. Aditya for the A.Y. 2024-25

Particulars	₹	₹
Salaries		
Income from Salary computed	3,00,000	
Less: Loss from house property set-off against salary income as per section 71(1) (upto maximum 2,00,000)	(2,00,000)	1,00,000
Profits and gains of business or profession		
Income from trading business	45,000	
Less: Brought forward loss from trading business of A.Y. 2018-19 can be set off against current year income from trading business as per section 72, since the eight year time long as specified under section 72, within which set-off is permitted, has not expired	(5,000)	40,000
Income from speculative business B	5,000	
Less: Loss from speculative business A set-off as per section 73	(25,000)	
Loss from speculative business A to be carried forward to A.Y. 2025-26 as per section 73	(20,000)	
Loss from specified business covered under section 35AD to be carried forward for set-off against income from specified business as per section 73A	(20,000)	
Capital Gains		
Long term capital gain on sale of urban land	2,00,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 70	(75,000)	
Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section 70 ,since long-term capital gains arising on sale of such shares is taxable under section 112A	(1,02,000)	23,000
Total Income		1,63,000

Items eligible for carried forward to A.Y. 2025-26

Particulars	₹
<p>Loss from House property</p> <p>As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only.</p> <p>As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year.</p> <p>IT can be carried forward for a maximum of eight assessment years i.e., upto A.Y. 2032-33, in this case.</p>	50,000
<p>Loss from speculative business A</p> <p>Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y. 2028-29, in this case, as specified under section 73(4)</p>	20,000
<p>Loss from specified business</p> <p>Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from any specified business, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business.</p>	20,000
<p>Loss from the activity of owning and maintain race horses</p> <p>Losses from the activity of owning and maintain race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintain race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y. 2025-26, in this case, as specified under section 74A(3)</p>	2,000

Question 6

Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the previous year 2023-24.

	Particulars	₹
(1)	Income from Salary (computed)	15,000
(2)	Income from business	66,000
(3)	Long term capital gain on sale of land	10,800
(4)	Loss on maintenance of race horses	15,000
(5)	Loss from gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2021-22 are as follows:

	Particulars	₹
(1)	Unabsorbed depreciation	11,000
(2)	Loss from Speculative business	22,000
(3)	Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the Assessment Year 2024-25 and the amount of loss, if any that can be carried forward or not.

Answer

Computation of Gross Total Income of Mr. Garg for the A.Y. 2024-25

	Particulars	₹	₹
I.	Income from Salary (computed)		15,000
II.	Profits and gains of business or profession	66,000	
	Less: Unabsorbed depreciation brought forward from A.Y. 2021-22	(11,000)	55,000
	(Unabsorbed depreciation can be set-off against any head of income other than “salary”)		
iii.	Capital gains		
	Long-term capital gain on sale of land	10,800	
	Less: Brought forward short-term capital loss		
	[Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74(1)]	(9,800)	1,000
	Gross Total Income		71,000

Amount of loss to be carried forward to A.Y. 2025-26

	Particulars	₹
(1)	Loss from speculative business (to be carried forward as per section 73) [Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from A.Y. 2021-22 has to be carried forward to A.Y. 2025-26 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., upto A.Y. 2025-26]	22,000
(2)	Loss on maintenance of race horses [to be carried forward as per section 74A] [As per section 74A(3), the loss incurred in the activity of owning and maintain race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintain race horses. Such loss can be carried forward for a maximum of four assessment years i.e. upto A.Y. 2028-29]	15,000
(3)	Loss from gambling can neither be set-off not be carried forward.	--

Question 9

Ms. Geeta, a resident individual, provides the following details of her income / losses for the year ended 31.3.2024:

- (i) Salary received as a partner form a partnership firm ₹ 7,50,000. The same was allowed to the firm.
- (ii) Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.
- (iii) Long-term capital gain on sale of land ₹ 5,00,000.
- (iv) ₹ 51,000 received in cash from friends in party.
- (v) Brought forward business loss of assessment year 2020-21 ₹ 12,50,000.

Compute gross total income of Ms. Geeta for the Assessment Year 2024-25 and ascertain the amount of loss that can be carried forward.

Answer

Computation of Gross Total Income of Ms. Geeta for the Assessment Year 2024-25.

Particulars	₹
Salary received as a partner from a partnership firm is taxable under the head “Profits and gains of business and profession”	7,50,000
Less: Brought forward business loss of Assessment Year 2021-22 to be set-off against business income	(7,50,000)
	Nil
Capital Gains	
Long term capital gain on sale of land	5,00,000
Less: Long-term capital loss on shares on STT paid (See Note 2)	(3,00,000)
	2,00,000
Income from other sources	
Cash gift received from friends – since the value of cash gift 51,000 exceeds ₹ 50,000, The entire sum is taxable	51,000
Gross Total Income	2,51,000

Notes:

- Balance brought forward business loss of assessment year 2020-21 of ₹ 5,00,000 has to be carried forward to the next year.
- Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable under section 112A. Therefore, it can be set-off against long-term capital gain on sale of land as per section 70(3).

DEDUCTIONS UNDER CHAPTER VI – A (PART I)

Introduction

We know that, section 10 exempts certain incomes. Such incomes do not form part of total income i.e. they do not enter into the computation process at all.

On the other hand, Chapter VI-A contains deductions from the gross total income (Section 80C to 80U).

The important point to be noted here is that, if there is no gross total income, then no deductions shall be permissible.

Relevant provisions in this regard are as follows:

- (1) As per section 80A(1), in computing the total income of the assessee, there shall be allowed from the gross total income, deductions as specified under chapter VI-A. These deductions are enumerated u/s 80C to 80U.
- (2) According to section 80A(2), the aggregate amount of deductions under chapter VI-A shall in no case exceed the amount of gross total income of the assessee. Thus, an assessee cannot have a loss as a result of the deduction under chapter VI-A; and claim to carry-forward the same for the purpose of set-off against his income in the subsequent years. In other words:
 - Deductions under chapter VI-A > GTI is not possible
 - Deductions under chapter VI-A \leq GTI is possibleAccordingly, the **total income after allowing the deductions** under chapter VI-A shall **either be 'POSITIVE' or 'NIL' but it cannot be 'NEGATIVE'** because of deductions.
- (3) No deduction under chapter VI-A shall be permitted if the gross total income is NEGATIVE or NIL.
- (4) **Incomes from which deductions under chapter VI-A cannot be claimed:**
 - (a) Long-term Capital Gains (LTCG);
 - (b) Short-term Capital Gains (STCG) covered u/s 111A;
 - (c) Winnings Income;
 - (d) Unexplained Monies & Investments u/s 115BBE; and

(5) This chapter contains deductions in respect of certain payments, deductions in respect of certain incomes and other deductions. Following table shows the classification of deductions under chapter VI-A available from the gross total income:

Deductions covered under Chapter VI-A - (Section 80C to 80U)

Deductions in respect of certain payments

Section 80C	Deduction i.r.o. Specified Payments or Investments
Section 80CCC	Deduction i.r.o. Contributions made to Pension Funds
Section 80CCD	Deduction i.r.o. Contributions made to Notified Pension Scheme
Section 80CCE	Overall Limit on Deductions available u/s 80C, 80CCC & 80CCD(1)
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Section 80GGB	Deduction i.r.o. Donations made to Political Parties or Electoral Trust
Section 80GGC	

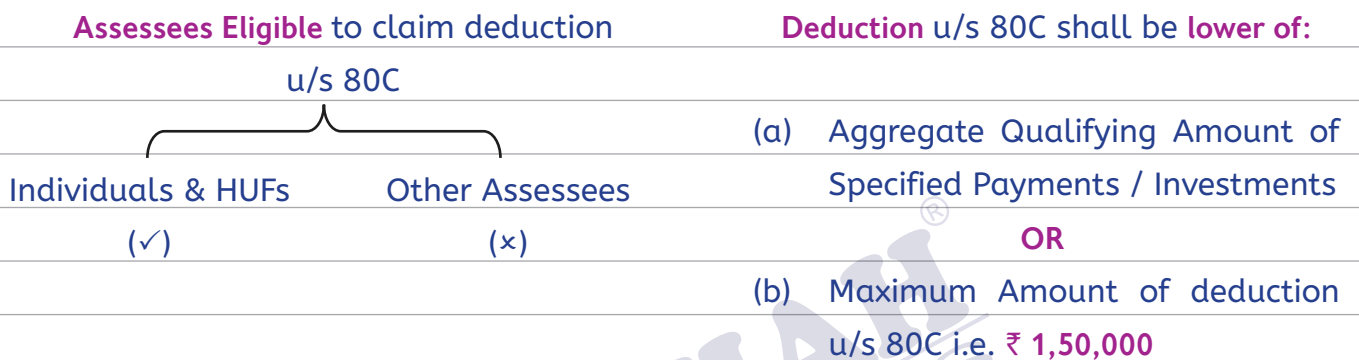
Deductions in respect of certain incomes

Section 80QQB	Deduction i.r.o. Royalty Income of Authors
Section 80RRB	Deduction i.r.o. Royalty Income on Patents
Section 80TTA	Deduction i.r.o. Interest on Savings Deposits Accounts
Section 80TTB	Deduction i.r.o. Interest on Deposits Accounts held by Senior Citizens

Other Deductions

Section 80JJAA	Deduction i.r.o. Additional Employee Cost on Employment of New Employees
Section 80U	Deduction in case of a Person with a Disability

Deduction i.r.o. Specified Payments or Investments - [Section 80C]



Note:

The amount of deduction available u/s 80C is further subjected to the overall limit u/s 80CCE.

Following are the payments/investments eligible for deduction u/s 80C:

	Specified Payments or Investments								
(1)	<p>Life Insurance Premium:</p> <p>By an Individual : Self, Spouse or Children of such Individual for</p> <p>By a HUF for : any member of such HUF</p> <p>Note:</p> <p>(a) Life Insurance Premium paid in respect of any of the above policies shall qualify:</p> <table border="1" style="width: 100%; margin-left: 20px;"> <thead> <tr> <th style="text-align: center;">to the extent of maximum</th> <th style="text-align: center;">if the life insurance policy is taken</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">20% of Capital Sum Assured</td> <td>on or after 01.04.2003 but on or before 31.03.2012</td> </tr> <tr> <td style="text-align: center;">10% of Capital Sum Assured</td> <td>on or after 01.04.2012 but on or before 31.03.2013</td> </tr> <tr> <td style="text-align: center;">10% of Capital Sum Assured</td> <td>on or after 01.04.2013 (for any normal person)</td> </tr> </tbody> </table>	to the extent of maximum	if the life insurance policy is taken	20% of Capital Sum Assured	on or after 01.04.2003 but on or before 31.03.2012	10% of Capital Sum Assured	on or after 01.04.2012 but on or before 31.03.2013	10% of Capital Sum Assured	on or after 01.04.2013 (for any normal person)
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10% of Capital Sum Assured	on or after 01.04.2012 but on or before 31.03.2013								
10% of Capital Sum Assured	on or after 01.04.2013 (for any normal person)								

	<table border="1"> <tr> <td>15% of Capital Sum Assured</td> <td>on or after 01.04.2013 (for any person suffering from a disability as specified u/s 80U or any disease as specified u/s 80DDB)</td> </tr> </table>	15% of Capital Sum Assured	on or after 01.04.2013 (for any person suffering from a disability as specified u/s 80U or any disease as specified u/s 80DDB)
15% of Capital Sum Assured	on or after 01.04.2013 (for any person suffering from a disability as specified u/s 80U or any disease as specified u/s 80DDB)		
	<p>(b) If the life insurance policy is terminated or discontinued by the assessee within a period of 2 years after its date of commencement, then, the aggregate deduction granted in the past years u/s 80C shall be deemed to be the income of the previous year in which the policy is terminated or discontinued.</p> <p>(c) Premium on the life insurance policy of the employee, his spouse or any of his children, paid by the employer shall be taxable as perquisite in the hands of the employee and the same shall be allowed as a deduction u/s 80C in the hands of the employee. However, any premium on the life insurance policy of any other relative of the employee, paid by the employer shall be taxable as perquisite in the hands of the employee but the same shall not be allowed as a deduction u/s 80C in the hands of the employee.</p>		
(2)	<p>Contribution towards Non-Commutable Deferred Annuity Plans: Any contribution by an individual towards a non-commutable deferred annuity plan for self, spouse or any of his children.</p>		
(3)	<p>Sum deducted towards Deferred Annuity Plan: Any sum deducted from the salary of any government employee towards deferred annuity plan for making a provision for the benefit of self, spouse or any of his children.</p> <p>Note: Such sum shall qualify u/s 80C subject to maximum 1/5th of the salary of such employee.</p>		
(4)	<p>Employee's Contribution towards SPF or RPF or ASAF: Employee's Contribution towards his SPF or RPF or ASAF Account out of his salary.</p>		
(5)	<p>PPF Deposit: Deposit made into the Public Provident Fund (PPF) Account by:</p> <ul style="list-style-type: none"> - an Individual : for self or his spouse or any of his children - a HUF : for any member of the HUF <p>Note:</p> <p>(a) The maximum limit for contribution or deposit in the PPF A/c is ₹ 1,50,000 p.a.</p> <p>(b) Interest on PPF A/c is fully exempt u/s 10(11)</p>		

<p>(6)</p>	<p>Deposit in Sukanya Samridhi Account: Any sum deposited in the Sukanya Samridhi Account by an individual in the name of:</p> <ul style="list-style-type: none"> - any girl child of the individual; or - any girl child for whom such individual is the legal guardian <p>Note: Interest on Sukanya Samridhi Account – Fully Exempt u/s 10(11A)</p>
<p>(7)</p>	<p>Subscription to NSC/NSS/NHB/NABARD: <u>Contribution or Subscription by an Individual or HUF to:</u></p> <ul style="list-style-type: none"> - National Savings Certificate (NSC) - National Savings Scheme (NSS) - Notified Deposit Schemes of National Housing Bank (NHB) - Notified Bonds of National Bank for Agricultural and Rural Development (NABARD) <p>Note: Accrued Interest on NSC shall be taxable as income under the head 'Other Sources' and the same shall be eligible for deduction u/s 80C.</p>
<p>(8)</p>	<p>Contribution to ULIPs of UTI or LIC Mutual Fund: Contribution to Unit Linked Insurance Plans (ULIPs) of the Unit Trust of India (UTI) or LIC Mutual Fund by:</p> <ul style="list-style-type: none"> - an Individual : for self or his spouse or any of his children - a HUF : for any member of the HUF <p>Note: If the assessee terminates his participation or he ceases to participate in ULIP due to non-payment of contribution within 5 years, then, aggregate deduction granted in the past years u/s 80C shall be deemed to be the income of the previous year in which the ULIP is terminated.</p>
<p>(9)</p>	<p>Sum paid to acquire Notified Units of UTI or Mutual Funds: Any sum paid by an Individual or HUF towards notified units of Unit Trust of India (UTI) or any Mutual Fund.</p> <p>Note: Units issued under the Equity Linked Savings Scheme (ELSS) of UTI and Mutual Funds are notified in this regard.</p>
<p>(10)</p>	<p>Contribution to Notified Annuity Plans of UTI or Mutual Funds: Contribution by an Individual to the notified annuity or pension plans of Unit Trust of India (UTI) or any Mutual Fund.</p>

<p>(11)</p>	<p>Payment towards Approved Annuity Plans of LIC or Other Insurers: Payment made by an Individual or HUF towards approved (notified) annuity plans of the LIC or any other insurer.</p> <p>Note: Approved Annuity Plans for section 80C: Jeevan Dhara and Jeevan Akshay plans of the LIC, Tata AIG Easy Retire Annuity Plan of Tata AIG Life Insurance Company Ltd. Are approved for the purpose of deduction u/s 80C.</p>
<p>(12)</p>	<p>Subscription to Notified Deposit Schemes of Public Sector Companies or Authorities: Subscription made by an Individual or HUF to any notified deposit scheme of:</p> <ul style="list-style-type: none"> - any public sector company engaged in providing long-term finance for purchase or construction of residential house property; or - any authority constituted in India for infrastructural development of cities / towns or villages or for dealing with or satisfying the need of housing accommodation.
<p>(13)</p>	<p>Subscription to Equity Shares or Debentures: Subscription to equity shares or debentures forming part of any eligible issue of capital and approved by the CBDT in this regard. (Minimum Lock in Period - 3 years).</p> <p>Note: If such equity shares or debentures are transferred within 3 years from the date of acquisition, then, the amount of deduction allowed earlier u/s 80C shall be deemed to be the income of the previous year in which such equity shares or debentures are transferred.</p>
<p>(14)</p>	<p>Subscription to Notified Units of Mutual Funds: Subscription to notified units of mutual funds forming part of any eligible issue of capital and approved by the CBDT in this regard. (Minimum Lock in Period - 3 years).</p> <p>Note: If such units are transferred within 3 years from the date of acquisition, then, the amount of deduction allowed earlier u/s 80C shall be deemed to be the income of the previous year in which such units are transferred.</p>
<p>(15)</p>	<p>Deposit made under Senior Citizens Saving Scheme: Any sum deposited under the Senior Citizens Saving Scheme (SCSS) for minimum 5 years as per the Senior Citizens Saving Scheme Rules, 2004.</p>

(16)	<p>Deposit made under the Post Office Time Deposit Account: Any sum deposited under the Post Office Time Deposit Account (POTD) for minimum 5 years as per the Post Office Time Deposit Rules, 1981.</p>
<p>Note (for Point No. 15 & 16): If any sum is withdrawn (including interest accrued) from the SCSS or POTD Account before the expiry of 5 years from the date of deposit, then, the amount so withdrawn shall be deemed to be the income of the previous year in which the same stands withdrawn. However, if such amount is received by the nominee or legal heir of the assessee on death of the assessee, then, such amount is not taxable in the hands of such nominee or legal heir.</p>	
(17)	<p>Payment of Tuition Fees: Any sum paid by an individual as tuition fees for full-time education of any 2 children of such individual to any school or college or university in India.</p> <div style="border: 1px solid black; padding: 5px;"> <p>Note: This benefit is only for the amount of tuition fees for full-time education and shall not include any payment towards development fees or donation or payments of similar nature and payment made for education to any institution situated outside India.</p> </div>
(18)	<p>Term Deposit with a Scheduled Bank: Term deposit made with any scheduled bank for minimum 5 years in accordance with a scheme framed and notified by the Central Government in this regard.</p> <div style="border: 1px solid black; padding: 5px;"> <p>Note: (a) In case the term deposit account is jointly held, the deduction u/s 80C shall be allowable only to the first holder of the deposit account. (b) Term deposit w.r.t. which a deduction was claimed shall not be pledged or kept as a security.</p> </div>
(19)	<p>Payment towards Cost of Purchase or Construction of a Residential House Property: Any payment made by an Individual or HUF for the purpose of purchase or construction of a residential house property, which is assessable under the head 'House Property'.</p> <p>Approved Payments for this purpose are:</p> <p>(a) Any instalment or part payment of the amount due:</p> <p style="margin-left: 20px;">(i) under any scheme of any development authority or housing board or any other authority engaged in the construction & sale of residential house properties; or</p>

(ii) to any company or co-operative society of which the assessee is the shareholder or member towards the cost of the residential house property allotted to him.

(b) **Repayment of amount borrowed** from:

- Central Government or State Government
- Any bank including a co-operative bank
- Life Insurance Corporation of India (LIC)
- National Housing Bank (NHB)
- Any Indian public company engaged in providing long-term finance for purchase or construction of residential house properties or any such co-operative society
- Any company in which the public are substantially interested or any cooperative society engaged in the business of financing the construction of houses
- Assessee's employer (being a public company, public sector company, university or college affiliated to such university, local authority, co-operative society, any authority or board or corporation or any other body established under any law for the time being in force)

(c) **Stamp duty, registration fees & other expenses for the purpose of transfer** of such residential house property to the assessee.

Following amounts shall not qualify for a deduction u/s 80C:

- (a) Admission fees, cost of shares, initial deposit etc. payable by a shareholder/member of the company or co-operative society for becoming such shareholder/member.
- (b) Cost of any addition or alteration or repairs or renovation carried out.
- (c) Expenditure for which any deduction is allowable u/s 24 [i.e. interest on housing loan u/s 24(b)]

Note:

If the residential house property w.r.t. which a deduction u/s 80C has been claimed is transferred before the expiry of 5 years from the date of its acquisition then no deduction shall be allowed in the year of transfer & the aggregate deduction granted in the past years shall be deemed to be the income of the previous year in which such residential house property is transferred.

(20)	<p>Contribution to additional account under NPS – (Finance Act' 2019 Amendment)</p> <p>Contribution by a Central Government employee to additional account under NPS (specified account) referred u/s 80CCD for a fixed period of ≥ 3 years and which is in accordance with the scheme notified by the Central Government for this purpose.</p> <p>It may be noted that only the contribution to the additional account under NPS will qualify for deduction under section 80C.</p> <p>There are two types of NPS account i.e. Tier I and Tier II, to which an individual can contribute.</p> <p>Section 80CCD provides deduction in respect of contribution to individual pension account [Tier I account] under the NPS, whereas deduction u/s 80C is allowable in respect of contribution by Central Government employee to additional account [Tier II account] of NPS, which does not qualify for deduction under section 80CCD.</p> <p>Thus, Tier II account is the additional account under NPS, contribution to which would qualify for deduction under section 80C only in the hands of a Central Government employee.</p>
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Deduction i.r.o. Contributions made to Pension Funds - [Section 80CCC]

Eligible Assesseees	Individuals (whether resident or non-resident)
Eligible Amount	The amount contributed by the assessee for himself in Pension or Annuity Fund/Policy/Scheme/Plan of: <ul style="list-style-type: none"> (a) Life Insurance Corporation of India (LIC); or (b) Any other approved insurance company; shall qualify for deduction u/s 80CCC
Deduction u/s 80CCC	<p>Deduction u/s 80CCC shall be lower of the following:</p> <p>Amount Contributed to Pension or Annuity Fund / Policy / Scheme / Plan</p> <p style="text-align: center;">OR</p> <p>Maximum Amount u/s 80CCC i.e. Rs. 1,50,000</p> <p>Note:</p> <p>The amount of deduction available u/s 80CCC is further subjected to the overall limit u/s 80CCE.</p>

Other Points	<p>(a) Such contribution must be made out of the taxable income of the assessee.</p> <p>(b) For the purpose of section 80CCC, the interest or bonus accrued or credited to the assessee's account (if any) shall not be reckoned as contribution.</p> <p>(c) Where the assessee or his nominee surrenders the annuity before the maturity, the surrender value including bonus or interest, if any, shall be taxable in the hands of the assessee or nominee in the previous year in which such surrender value is received.</p> <p>(d) If the deduction is claimed u/s 80CCC and later on pension is received by the assessee or his nominee, then, such pension will be taxable in the hands of the recipient in the year of receipt.</p> <p>(e) Where any amount contributed by the assessee has been taken into account for the purposes of this section, then, deduction u/s 80C shall not be allowed with reference to such amount.</p>
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Deduction i.r.o. Contributions made to Notified Pension Scheme - [Section 80CCD]

Eligible Assessee	Individuals (Govt. employees or employees of any organisation or self-employed individuals) can claim deduction u/s 80CCD.
Eligible Amount	Any contribution made by the assessee or his employer in the pension scheme notified by the Central Government shall be eligible for deduction u/s 80CCD.
	<p>Note:</p> <p>'Atal Pension Yojana' has also been notified as a pension scheme, contribution to which would qualify for deduction u/s 80CCD in the hands of the assessee.</p>
Deduction u/s 80CCD(1)	<p>Deduction u/s 80CCD(1) shall be lower of the following:</p> <p>(a) Assessee's Contribution to his NPS A/c; or</p> <p>(b) 10% of Salary (20% of Gross Total Income if the assessee is self-employed individual)</p> <p>Note:</p> <p>(1) Salary = Basic (+) D.A. in terms</p> <p>(2) Deduction u/s 80CCD(1) shall be subjected to the overall limit u/s 80CCE.</p>

<p>Deduction u/s 80CCD(1B)</p>	<p>Section 80CCD(1B) provides for an additional deduction of up to ₹ 50,000 in respect of the whole of the amount paid or deposited by an individual assessee under the NPS in the previous year, whether or not any deduction is allowed u/s 80CCD(1).</p> <p>In other words, assessee's contribution to his NPS A/c whether or not claimed u/s 80CCD(1) shall be eligible u/s 80CCD(1B) subject to a maximum limit of Rs. 50,000.</p> <p>Note: Deduction u/s 80CCD(1B) shall not be subjected to overall limit u/s 80CCE.</p>						
<p>Deduction u/s 80CCD(2)</p>	<p>In case of salaried individuals, if his employer also contributes to his NPS A/c, then, the amount so contributed by the employer to the NPS A/c of the assessee shall be taxable as perquisite under the head 'Salaries' in the hands of such assessee.</p> <p>Further, this contribution also gets qualified for deduction u/s 80CCD(2) in the hands of such assessee.</p> <p>Deduction allowable u/s 80CCD(2) in respect of such contribution shall be lower of:</p> <p>(a) Employer's Contribution to NPS A/c of the employee; or (b) 10% of Salary (14% of Salary, where the contribution is made by the Central Government or State Government.</p> <p>Note: (1) Salary = Basic (+) D.A. in terms (2) Deduction u/s 80CCD(2) shall not be subjected to the overall limit u/s 80CCE.</p>						
<p>Other Points</p>	<p>The amounts standing to the credit of the assessee in the NPS A/c, for which the deduction has already been claimed by the assessee and the accretions to such A/c shall be taxed as follows:</p> <table border="1" data-bbox="419 1597 1489 2184"> <tr> <td data-bbox="419 1597 1225 1742"> <p>(1) Partial withdrawal by the employee from NPS A/c to the extent it does not exceed 25% of contributions made by him</p> </td> <td data-bbox="1233 1597 1489 1742"> <p>shall be exempt u/s 10(12B)</p> </td> </tr> <tr> <td data-bbox="419 1753 1225 2033"> <p>(2) Amount received by the assessee on closure of or on his opting out of the NPS Scheme 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 - (Finance Act' 2019 Amendment)</p> </td> <td data-bbox="1233 1753 1489 2033"> <p>shall be exempt u/s 10(12B)</p> </td> </tr> <tr> <td data-bbox="419 2045 1225 2184"> <p>(3) Amount received by the nominee or legal heir of the assessee on closure of NPS A/c on death of the assessee</p> </td> <td data-bbox="1233 2045 1489 2184"> <p>Fully Exempt</p> </td> </tr> </table>	<p>(1) Partial withdrawal by the employee from NPS A/c to the extent it does not exceed 25% of contributions made by him</p>	<p>shall be exempt u/s 10(12B)</p>	<p>(2) Amount received by the assessee on closure of or on his opting out of the NPS Scheme 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 - (Finance Act' 2019 Amendment)</p>	<p>shall be exempt u/s 10(12B)</p>	<p>(3) Amount received by the nominee or legal heir of the assessee on closure of NPS A/c on death of the assessee</p>	<p>Fully Exempt</p>
<p>(1) Partial withdrawal by the employee from NPS A/c to the extent it does not exceed 25% of contributions made by him</p>	<p>shall be exempt u/s 10(12B)</p>						
<p>(2) Amount received by the assessee on closure of or on his opting out of the NPS Scheme 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 - (Finance Act' 2019 Amendment)</p>	<p>shall be exempt u/s 10(12B)</p>						
<p>(3) Amount received by the nominee or legal heir of the assessee on closure of NPS A/c on death of the assessee</p>	<p>Fully Exempt</p>						

	(4) Pension received out of NPS A/c	shall be taxable
	(5) Amount as mentioned under point no. (2) & (4) above which is utilised for purchasing an annuity plan in the same previous year	shall be exempt
	(6) Pension received out of the annuity plan purchased in point no. (5) above	shall be taxable

Overall Limit on Deductions u/s 80C, 80CCC & 80CCD(1) - [Section 80CCE]

- The aggregate amount of deductions available u/s 80C, 80CCC and 80CCD(1);
- except the deduction available u/s 80CCD(1B) & 80CCD(2);
- shall not in any case exceed ₹ 1,50,000.

Deduction i.r.o contribution to 'Agnipath Scheme". (Section 80CCH)

Deduction i.r.o contribution to "Agnipath Scheme." (Section 80CCH)

Eligible Assessee : Individual (whether Resident or Non-resident)

Eligible Amount : Any contribution made by the assessee to the Agnieveer Corpus Fund.

Deduction : 100% of contribution by assessee as well as any contribution by the central Government.

Other Points : The Individual should have enrolled in Agni path scheme on or after 1.11.20

Deduction i.r.o. Amount spent towards Health Insurance Premium, Preventive Health Check-up, Central Government Health Scheme & Medical Expenditure for Senior Citizens (having no mediclaim) - [Section 80D]

Eligible Assessee		Individuals & HUFs (whether Resident or Non-Resident)		
Maximum deductible amount u/s 80D & other relevant details:				
Deduction available to		Individuals		HUFs
For whose benefit the payment can be made		Family	Parents	Any Member
(A)	(a) Mediclaim/Health Insurance Premium	Eligible	Eligible	Eligible
	(b) Contribution to CGHS/Notified Scheme	Eligible	-	-
	(c) Payment for Preventive Health Check-up	Eligible	Eligible	-
	Maximum deduction u/s 80D [applicable in case of point nos. (a), (b) & (c)]	₹ 25,000	₹ 25,000	₹ 25,000

	Maximum deduction u/s 80D when the mediclaim policy is taken for a senior citizen [applicable in case of point no. (a) only]	₹ 50,000	₹ 50,000	₹ 50,000
(B)	Medical expenditure on a senior citizen (for whom no mediclaim insurance premium is paid)	Eligible	Eligible	Eligible
	Maximum deduction u/s 80D in respect of (B)	₹ 50,000	₹ 50,000	₹ 50,000
	Maximum deduction u/s 80D in respect of (A) & (B)	₹ 50,000	₹ 50,000	₹ 50,000

Note:

- (1) Family includes individual, spouse of such individual, dependent children of such individual.
- (2) Parents include father & mother of the individual (whether dependent or not). However, it does not include parents of the spouse of the individual i.e. father-in-law & mother-in-law.
- (3) The aggregate amount of payment in respect of preventive health check-up for self, spouse, dependent children & parents of the individual cannot exceed ₹ 5,000.
- (4) All the above payments must be made by way of any mode other than cash. However, the payment in respect of preventive health check-up can be made by way of any mode including cash.
- (5) Further, all the above payments shall be made out of the income chargeable to tax.
- (6) 'Senior citizen' means an individual resident in India who is of the age of 60 years or more at any time during the relevant previous year.

Deduction where premium for health insurance is paid in lump sum - [Section 80D(4A)]:

In a case where mediclaim premium is paid in lumpsum for more than one year by:

- (i) an individual, to effect or keep in force an insurance on his health or health of his spouse, dependent children or parents; or
- (ii) a HUF, to effect or keep in force an insurance on the health of any member of the family;

then, the deduction allowable under this section for each of the relevant previous year would be equal to the **appropriate fraction** of such lump sum payment.

Appropriate Fraction	$1 \div \text{Total No. of Relevant Previous Years}$
Relevant Previous Years	The previous year in which such lump sum amount is paid and the subsequent previous year(s) during which the insurance would be in force.

Deduction i.r.o. Expenditure on Handicap Dependent Relative - [Section 80DD]

Eligible Assessee	Resident Individuals & HUFs	
Eligible Amount	Assessee shall:	
	(i) incur expenditure on the maintenance or medical treatment including nursing, training, rehabilitation of the (HDR); or	
	(ii) contribute to special deposit schemes of LIC or UTI or other approved institutions.	
Deduction u/s 80DD Flat deduction irrespective of actual expense	Amount of Deduction u/s 80DD shall be:	
	₹ 75,000	if the HDR is ordinarily disabled (i.e. disability is \geq 40% but < 80%)
	₹ 1,25,000	if the HDR is severely disabled (i.e. disability is \geq 80%)
Handicap Dependent Relative (HDR)	Handicap:	
	Handicap means a person with specified disability (either physical or mental) as specified under Rule 11D of the Income Tax Rules, 1962.	
	Dependent Relative:	
	(a) Spouse, Siblings (i.e. Brothers/Sisters), Parents, Children - (If the assessee is an Individual)	
	(b) Any Member of the HUF - (If the assessee is a HUF)	
Other Points	(a) Amount of expenditure incurred on the medical treatment of HDR or the amount deposited in the schemes for the benefit of HDR shall be ignored for the purpose of claiming deduction u/s 80DD because deduction under this section purely depends on the degree/level of disability of the HDR.	
	(b) Certificate of disability of the HDR shall be obtained from approved medical authority prior to claiming such deduction.	
	(c) If the HDR predeceases the assessee, then the amount received from the special deposit scheme by the assessee shall be taxable in the hands of the assessee in the year of receipt. However if the HDR has attained the age of 60 years or more and has started receiving money then it will not be taxable in the hands of assessee.	
	(d) If the HDR himself is claiming deduction u/s 80U in his own assessment, then no deduction u/s 80DD shall be granted to the assessee.	

Deduction i.r.o. Expenditure on Treatment of Specified Diseases - [Section 80DDB]

Eligible Assessee	Resident Individuals & HUFs
Eligible Amount	Assessee shall incur expenditure: On treatment of specified diseases (as mentioned under Rule 11DD) for: (a) Himself or Dependent Spouse, Siblings, Parents, Children (SSPC) - (If the assessee is an Individual) (b) Any dependent member of the HUF - (If the assessee is a HUF)
Deduction u/s 80DDB	Deduction u/s 80DDB shall be least of the following: (a) Expenditure incurred on treatment of specified disease OR (b) Maximum Amount of Deduction u/s 80DDB - ₹ 40,000 (₹ 1,00,000 if the patient is a Senior Citizen)
Other Points	(a) If any amount is received from an insurer or reimbursed by the employer for such medical treatment, then the same shall be reduced from the amount as determined above and any balance remaining thereafter shall only be allowed as a deduction u/s 80DDB. (b) For claiming the deduction u/s 80DDB the assessee is required to obtain a prescription from a specialist doctor.

Deduction i.r.o. Interest on Higher Education Loan - [Section 80E]

Eligible Assessee	Individuals (whether resident or non-resident)
Eligible Amount	Deduction u/s 80E shall be allowed i.r.o. interest on the higher education loan. However, this deduction shall not be available i.r.o. repayment of the principal component of higher education loan. Note: Higher education means any course of study pursued after passing the Senior Secondary Examination (i.e. Standard 12th) or its equivalent.
Loan should be taken from	(a) any bank or financial institution; or (b) any approved charitable institution.
Loan should be taken for Higher Education of	(a) assessee himself; or (b) spouse of the assessee; or (c) children of the assessee; or (d) any student for whom the assessee is a legal guardian.

Deduction u/s 80E	The entire amount (i.e. 100%) of interest on higher education loan shall be deductible u/s 80E from the year in which the assessee starts paying such interest and shall be allowed for next 7 years or until the interest is paid in full by the assessee.
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Deduction i.r.o. Interest on loan taken for purchase of Residential House Property - [Section 80EE]

Eligible Assessee	Individuals (whether resident or non-resident)
Conditions	<ul style="list-style-type: none"> (a) Loan is taken from any bank or housing finance company for the purpose of purchase of residential house property. (b) Loan should be sanctioned on or after 1st April, 2016 but on or before 31st March, 2017 (i.e. during the P.Y. 2016-17). (c) Amount of loan sanctioned \leq ₹ 35 lakhs. (d) Value of the residential house property \leq ₹ 50 lakhs. (e) Assessee should not own any residential house as on the date of sanction of loan.
Deduction u/s 80EE	<p>Amount of deduction u/s 80EE shall be lower of the following:</p> <ul style="list-style-type: none"> (a) Interest on Housing Loan OR (b) Maximum Amount u/s 80EE = ₹ 50,000
Other Points	<ul style="list-style-type: none"> (a) Deduction u/s 80EE is available from A.Y. 2017-18 & subsequent assessment years. (b) Deduction u/s 80EE is over & above the deduction available u/s 24(b).

Deduction i.r.o. Interest on loan taken for purchase of Residential House Property - [Section 80EEA]

Eligible Assessee	Individuals (whether resident or non-resident)
Conditions	<ul style="list-style-type: none"> (a) Loan is taken from any bank or housing finance company for the purpose of purchase of residential house property. (b) Loan should be sanctioned on or after 1st April, 2019 but on or before 31st March, 2022. (c) Stamp Duty Value of the residential house property \leq ₹ 45 lakhs.

	<p>(d) Assessee should not own any residential house as on the date of sanction of loan.</p> <p>(e) The individual should not be eligible to claim deduction u/s 80EE.</p>
Deduction u/s 80EEA	<p>Amount of deduction u/s 80EEA shall be lower of the following:</p> <p>(a) Interest on Housing Loan OR</p> <p>(b) Maximum Amount u/s 80EEA = Rs. 1,50,000</p>
Other Points	<p>(a) Deduction u/s 80EEA is available from A.Y. 2020-21 and subsequent assessment years till the repayment of loan continues.</p> <p>(b) The deduction u/s 80EEA is over and above the deduction available under section 24(b) in respect of interest payable on loan borrowed for acquisition of a residential house property. In respect of SOP(R), interest deduction u/s 24(b) is restricted to ₹ 2,00,000. In case of LOP or DLOP, even though there is no limit u/s 24(b), section 71(3A) restricts the amount of loss from house property to be set-off against any other head of income to ₹ 2,00,000.</p>
	<p>Accordingly, if interest payable in respect of acquisition of eligible house property is more than Rs. 2,00,000, the excess can be claimed as deduction u/s 80EEA to the extent of maximum ₹ 1,50,000, subject to fulfilment of conditions.</p> <p>(c) The interest allowed as deduction under section 80EEA will not be allowed as deduction under any other provision of the Act for the same or any other assessment year.</p>
Eligible Assesseees	Individuals (whether resident or non-resident)
Conditions	<p>(a) Loan is taken from any bank or Specified NBFC for the purpose of purchase of electric vehicles.</p> <p>(b) Loan should be sanctioned on or after 1st April, 2019 but on or before 31st March, 2023.</p>
Deduction u/s 80EEB	<p>Amount of deduction u/s 80EEB shall be lower of the following:</p> <p>(a) Interest on Loan OR</p> <p>(b) Maximum Amount u/s 80EEB = ₹ 1,50,000</p>
Other Points	<p>(a) Deduction u/s 80EEB is available from A.Y. 2020-21 and subsequent assessment years till the repayment of loan continues.</p> <p>(b) The interest allowed as deduction under section 80EEB will not be allowed as deduction under any other provision of the Act for the same or any other assessment year.</p>

Deduction i.r.o. Interest on Savings Deposits Accounts - [Section 80TTA]

Eligible Assessee	Individuals & HUFs (whether Resident or Non-Resident) Deduction under this section would, however, not be available to a resident senior citizen eligible for deduction u/s 80TTB.
Eligible Income	Where the gross total income of the assessee includes interest on Deposits in a Savings Deposits Account maintained with: (a) any Banking Company; or (b) any Co-operative Bank; or (c) any Post Office
Deduction u/s 80TTA	Deduction u/s 80TTA shall be least of the following: (a) Amount of Interest Income; OR (b) Maximum Amount u/s 80TTA = ₹ 10,000.
Other Points	If the Savings Account is held in the name of a Firm/AOP/BOI, no deduction shall be allowed u/s 80TTA in respect of such income in computing the total income of any partner of the firm or any member of the AOP / BOI.

Deduction i.r.o. Interest on Deposits Accounts held by Senior Citizens - [Section 80TTB]

Eligible Assessee	Senior Citizen i.e. (Resident Individual + Age \geq 60 years at any time during the previous year)
Eligible Income	Where the gross total income of the assessee includes interest on Deposits with: (a) any Banking Company; or (b) any Co-operative Bank; or (c) any Post Office
Deduction u/s 80TTB	Deduction u/s 80TTB shall be least of the following: (c) Amount of Interest Income; OR (d) Maximum Amount u/s 80TTB = ₹ 50,000.
Other Points	Where interest income is derived from any deposit held by, or on behalf of, a firm, an AOP or a BOI, the partner of the firm or member of AOP / BOI would not be allowed deduction in respect of such income while computing their total income.

Deduction in case of a Person with a Disability - [Section 80U]

Eligible Assesseees	Resident Individual suffering from a disability (either physical or mental) as specified under Rule 11D of the Income Tax Rules, 1962 shall be eligible to claim deduction u/s 80U.	
Deduction u/s 80U	Amount of Deduction u/s 80U shall be:	
	₹ 75,000	if the assessee is ordinarily disabled (i.e. disability is $\geq 40\%$ but $< 80\%$)
	₹ 1,25,000	if the assessee is severely disabled (i.e. disability is $\geq 80\%$)

Note:

The assessee shall furnish a copy of certificate issued by a medical authority in Form No. 10-IA along with the return of income.

In case of re-assessment of disability, a fresh certificate from the medical authority should be obtained after the expiry of the period mentioned in the original certificate, in order to continue claiming the deduction.

CLASSWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Mr. X is employed by a multinational company in India on a basic salary of ₹ 45,000 p.m. Dearness allowance of ₹ 25,000 p.m. of which 40% is entering into retirement benefits. The employer and employee contribute ₹ 3,500 p.m. (each) to Recognised Provident Fund. Interest credited to this RPF during the year is ₹ 65,000 @ 10.5% p.a. The employer and employee also contribute ₹ 8,000 p.m. and ₹ 6,000 p.m. respectively to the notified pension scheme.

He has income from house property of ₹ 1,20,000/-. However, he has b/f loss of house property of ₹ 70,000 of A.Y. 2017-18. His other incomes taxable under other sources is ₹ 6,10,000.

During the year 2023-24, he made the following payments :

- (1) Contribution to P.P.F. ₹ 15,000.
- (2) Life insurance premium on policy purchased for self in the year 2007 ₹ 16,000 (sum assured ₹ 1,80,000)
- (3) Life Insurance Premium on dependent mother ₹ 6,000 (sum assured ₹ 50,000)
- (4) On 21.7.2014 he purchased a life Insurance policy in the name of his wife for which he paid a premium of ₹ 14,500. [Sum Assured ₹ 1,20,000]
- (5) Fees paid to school for education of his three children ₹ 6,000 each.
- (6) Fees paid to a coaching class for tuition of his three children ₹ 3,000 each.

You are required to calculate his total income for A.Y. 2024-25.

Question 2

X is a resident individual who contributes annually a sum of ₹ 15,000 with LIC for the maintenance of his handicapped dependant grand - father.

What is the deduction u/s 80DD? Will it make any difference if the dependant is a disabled brother (40% disabled)?

Question 3

Mr. Raghu, Marketing Manager of KL Ltd., based at Mumbai furnishes you the following information for the year ended 31.03.2024:

Basic salary - ₹ 1,00,000 per month

Dearness allowance (Forming part of salary for retirement benefits) - ₹ 50,000 per month

Bonus - 2 months basic salary

Contribution of employer to Recognized Provident Fund - 15% of basic salary plus dearness allowance Rent free unfurnished accommodation was provided by the company at Mumbai (accommodation owned by the company). Other details are as follows :

- (i) Recognised Provident Fund contribution made by Raghu 1,50,000
- (ii) Health insurance premium for insurance of his wife's health 30,000
- (iii) Health insurance premium in respect of parents (senior citizens) 33,000
- (iv) Medical expenses of dependent brother with 'severe disability' (covered by Section 2(o) of National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999) - 6,000
- (v) Interest on loan taken for education of his son studying B.Com (full-time) in a recognized college - 24,000
- (vi) Interest on loan taken for education of a student for whom Mr. Raghu is the legal guardian for pursuing B.Sc.(Physics) (full-time) in a recognized university - 20,000

Compute the total income of Mr. Raghu for the assessment year 2024-25.

CLASSWORK SOLUTIONS

Answer 1

Mr. X

Computation of total income for A.Y. 2024-2025

Particulars	₹
Income from Salary (W.N. 1)	8,92,190
Income from House Property (W.N. 2)	50,000
Income from Other Sources	6,10,000
GROSS TOTAL INCOME (G.T.I.)	15,52,190
Less deductions u/s 80C to 80U	(2,35,000)
NET TAXABLE TOTAL INCOME (N.T.T.I.)	13,17,190

W.N. 1 Income from Salary

Basic Salary (45,000 p.m. x 12 months)		5,40,000
D. A. (in terms) (25,000 p.m. x 12 months x 40%)		1,20,000
D. A. (not in terms) (25,000 p.m. x 12 months x 60%)		1,80,000
Employer's Contribution to R.P.F. (3,500 p.m. x 12 months)		42,000
Less: Exempt upto 12% of SALARY [12% X (5,40,000 + 1,20,000) = 79,200 maximum]		(42,000)
Interest credited to R.P.F. @ 10.5% p.a.		65,000
Less: Exempt upto 9.5% p.a. [65,000 / 10.5% * 9.5%]		(58,810)
Employer's contribution to Pension fund (8,000 p.m. x 12 months)		96,000
GROSS SALARY		9,42,190
Less: Deductions u/s. 16 (ia) standard deduction		(50,000)
NET TAXABLE SALARY		8,92,190

W.N. 2 Income from House Property

Income (as given)	1,20,000
Less: Set off of b/f House Property loss of A.Y. 2017-2018 u/s. 71B	(70,000)
	50,000

W.N. 3 Deductions u/s. 80C to 80U

u/s. 80C: Employee contribution to RPF	42,000	
Contribution to PPF	15,000	
Life Insurance premium:		
(a) Self	16,000	
(b) Mother, NOT ALLOWED	NIL	
(c) Wife (Max 10% of Sum Assured)	12,000	
School Fees (6,000 × 2 children max)	12,000	
TOTAL	97,000	
Maximum allowable u/s. 80C	1,50,000	
Deduction allowed	A	97,000
u/s. 80CCD(1):		
Employee's contribution to pension fund, in excess of limit of ₹ 50,000 as per Sec 80CCD(1B)	22,000	
[72,000 - 50,000] OR		
10% of SALARY of ₹ 6,60,000		
[5,40,000 basic + 1,20,000 DA in terms]	66,000	
Whichever is less	C	22,000
Total deductions u/s. 80C, 80CCC and 80CCD(1)		1,19,000
97,000 + 0 + 22,000		
A + NIL + C		
Deduction allowable [in accordance with Section 80CCE]	(i)	1,19,000
(1,19,000 is within maximum limit of 80CCE of 1,50,000)		
Employee's Contribution to Pension Fund (6,000pm × 12)	72,000	
Maximum allowable u/s. 80CCD(1B)	50,000	
Deduction allowed u/s. 80CCD (1B)	(ii)	50,000
u/s. 80CCD(2):		
Employer's contribution to pension fund		
(8,000 p.m. × 12 months) OR		
10% of SALARY of ₹ 6,60,000	96,000	
Whichever is less	66,000	
	(iii)	66,000
TOTAL DEDUCTIONS u/s. 80C to 80U	(I + ii + iii)	2,35,000

HOMEWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

An individual assessee, resident in India, has made the following deposit / payment during the previous year 2023-24:

Particulars	₹
Contribution to the public provident fund	1,50,000
Insurance premium paid on the life of the spouse (policy taken on 1.4.2014) (Assured value ₹ 2,00,000)	25,000

What is the deduction allowable under section 80 for A.Y. 2024-25?

Question 2

The basic salary of Mr. A is ₹ 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer 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.

Question 3

The gross total income of Mr. X for the A.Y. 2024-25 is ₹ 5,00,000. He has made the following investments/payments during the F.Y.2023-24 –

Particulars	₹
(1) Contribution to PPF	1,10,000
(2) Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
(3) Repayment of housing loan taken from Standard Chartered Bank	25,000
(4) Contribution to approved pension fund of LIC	1,05,000

Compute the eligible deduction under Chapter VI-A for the A.Y. 2024-25.

Question 4

Mr. A, aged 40 years, paid medical insurance premium of ₹ 20,000 during the P.Y. 2023-24 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹ 3,600 to Central Government Health

Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y. 2024-25.

Question 5

Mr. Y, aged 40 years, paid material insurance premium of ₹ 22,000 during the P.Y. 2023-24 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 67 years, who is not dependent on him. He incurred medical expenditure of ₹ 20,000 on his father, aged 71 years, who is not covered under mediclaim policy. His father is also not dependent upon him. He contributed ₹ 6,000 to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y. 2024-25.

Question 6

Mr. B has taken three education loans on April 1, 2023, the details of which are given below:

	Loan 1	Loan 2	Loan 3
For whose education loan was taken	B	Son of B	Daughter of B
Purpose of Loan	MBA	B.SC.	B.A.
Amount of loan (₹)	5,00,000	2,00,000	4,00,000
Annual repayment of loan (₹)	1,00,000	40,000	80,000
Annual repayment of interest (₹)	20,000	10,000	18,000

Compute the amount deductible under section 80E for the A.Y. 2024-25.

Question 7

Mr. A purchased, a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India @ 11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y. 2024-25 under the provisions of the Income-tax Act, 1961, assuming that the entire loan was outstanding as on 31.3.2024 and he does not own any other house property.

HOMEWORK PROBLEMS WITH SOLUTIONS

Answer 1

Computation of deduction under section 80C for A.Y. 2024-25

Particulars	₹
Deposit in public provident fund	1,50,000
Insurance premium paid on the life of the spouse (Maximum 10% of the assured value ₹ 2,00,000 as the policy is taken after 31.3.2012)	20,000 1,70,000
Total	1,50,000

However, the maximum permissible deduction u/s 80C is restricted to

Answer 2

Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD

- (a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary". Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. A's salary.
- (b) Mr. A's contribution to pension scheme is allowable as deduction under section 80CCD(1) after claiming deduction u/s 80CCD(1B) of maximum 50,000 of amount of contribution by employee beyond 50,000. However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, "salary" for the purpose of deduction under section 80CCD for Mr. A would be –

Particulars	₹
Basic salary = ₹ 1,00,000 × 12 =	12,00,000
Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000	
50% of Dearness Allowance forms part of pay = 50% of ₹ 4,80,000	2,40,000
Salary for the purpose of deduction under section 80CCD	14,40,000
Deduction under section 80CCD(1) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000)	1,44,000
As per section 80CCD (1B), a further deduction of upto ₹ 50,000 is allowable. Therefore, deduction under section 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 – ₹ 1,44,000)	36,000

₹ 1,44,000 is allowable as deduction under section 80CCD(1). This would be taken into consideration and be subject to the overall limit of ₹ 1,50,000 under section 80CCE. ₹ 36,000 allowable as deduction under section 80CCD(1B) is outside the overall limit of ₹ 1,50,000 under section 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction under section 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000 – ₹ 50,000) can be claimed as deduction under section 80CCD(1).

- (c) Employer's contribution to pension scheme would be allowable as deduction under section 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction under section 80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary under section 17(1) (viii). However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹ 1,50,000 under section 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

Answer 3

Computation of deduction under Chapter VI-A for the A.Y. 2024-25

Particulars	₹
Deduction under section 80C	
- Contribution to PPF	1,10,000
- Payment of tuition fees to Appejay School, New Delhi, for education of his son studying in Class XI	45,000
- Repayment of housing loan	25,000
	1,80,000
Restricted to ₹ 1,50,000, being the maximum permissible deduction u/s 80C	1,50,000
Deduction under section 80CCC	
- Contribution to approved pension fund of LIC ₹ 1,05,000	1,05,000
	2,55,000
As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD(1) has to be restricted to ₹ 1,50,000	
Deduction allowable under Chapter VIA for the A.Y. 2024-25	1,50,000

Answer 4

Deduction allowable under section 80D for the A.Y. 2024-25

	Particulars	Actual Payment ₹	Maximum deduction allowable ₹
A.	Premium paid and medical expenditure incurred and self and spouse		
	(i) Medical insurance premium paid for self and spouse	20,000	20,000
	(ii) Contribution to CGHS	3,600	3,600
	(iii) Exp. On preventive health check-up of self & spouse	3,000	1,400
		26,600	25,000
B.	Premium paid or medical expenditure incurred for father, who is a senior citizen		
	(i) Mediclaim premium paid for father, who is over 60 years of age	47,000	47,000
	(ii) Expenditure on preventive health check-up of father	4,000	3,000
		51,000	50,000
	Total deduction under section 80D (₹ 25,000 + ₹ 50,000)		75,000

Notes:

- (1) The total deduction under A. (i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹ 1,400, being (₹ 25,000 – ₹ 20,000 – ₹ 3,600).
- (2) The total deduction under B, (i) and (ii) above should not exceed ₹ 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being (₹ 50,000 – ₹ 47,000).
- (3) In this case, the total deduction allowed in account of expenditure on preventive health check-up of self, spouse and father is ₹ 4,400 (i.e., ₹ 1,400 + ₹ 3,000), which is less than the maximum permissible limit of ₹ 5,000.

Answer 5

Deduction allowable under section 80D for the A.Y. 2024-25

Particulars		₹
(i) Medical insurance premium paid for self, spouse and dependent children	₹ 22,000	
(ii) Contribution to CGHS	₹ 6,000	
restricted to	28,000	25,000
(iii) Mediclaim premium paid for mother, who is over 60 years of age	₹ 30,000	
(iv) Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance	₹ 20,000	
restricted to	53,000	50,000
		75,000

Answer 6

Deduction under section 80E is available to an individual assessee in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.

Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

Deduction under section 80E = ₹ 20,000 + ₹ 10,000 + ₹ 18,000 = ₹ 48,000.

Particulars		₹
Interest deduction for A.Y. 2024-25		
(i) Deduction allowable while computing income under the head "Income from house property"		
Deduction under section 24(b) ₹ 3,85,000 [₹ 35,00,00 × 11%]		
Restricted to		2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income		
Deduction under section 80EE ₹ 1,85,000 (₹ 3,85,000 – ₹ 2,00,000)		
Restricted to		50,000

DEDUCTIONS UNDER CHAPTER VI-A (PART – II)

Deduction i.r.o. Donations or Contributions to Notified Institutions/Funds - [Section 80G]

Eligible Assessee	All Assesseees (whether resident or non-resident)
Eligible Amount	<p>Deduction u/s 80G shall be allowable only where the assessee donates or contributes or makes payment to notified institutions/funds.</p> <p>Note:</p> <ol style="list-style-type: none"> (1) No deduction shall be allowed under this section in respect of any donation unless such donation is of a sum in money (i.e. Donations in kind are not allowed). (2) Further, no deduction shall be allowed under this section in respect of donation of any sum exceeding Rs. 2,000 unless such sum is paid by any mode other than cash. (3) Also, where an assessee has claimed and has been allowed any deduction under this section in respect of any amount of donation, the same amount will not qualify for deduction under any other provision of the Act for the same or any other assessment year. (4) It is now mandatory for entities receiving donation to furnish a statement of donations received in relation to which the donor gets / claims deduction in his assessment. such donation receiving institution will issue a certificate to the donor/ payer and on the strength of the certificate the donor will get the deduction only.

List of Institutions/Funds Notified for section 80G:

Unlimited 50%	Limited 100%
1. Prime Minister's Drought Relief fund	1. Donations for family planning given to <ul style="list-style-type: none"> • Central Government • State Government • Local Government/Municipality • Approved Organisation / Association / Hospital
Unlimited 100%	2. Donations to Indian Olympic Association/or any notified association for sports infrastructure development (Only companies are eligible)
1. National defence fund set up by the Central Government	Limited 50%
2. Prime Minister's National Relief fund	3. Donation to an authority established for TOWN PLANNING/ housing development / (e.g MHADA)
3. Prime Minister's Armenia Earthquake Relief Fund	4. Donation, for repair & renovation, given to notified Temple, Mosque, gurdwara, church, historic place, archeological place
4. Africa Fund (Public contribution in India)	5. Donation given for charitable purpose to: <ul style="list-style-type: none"> • APPROVED SCHOOLS, colleges, educational institutions (not nationally eminent) • Universities Approved by Income tax authorities but not by UGC (not covered by 20 above) • Approved Trusts, organisations, associations • Approved Hostel, old age homes, library, hospitals etc. • Approved Funds & Foundations
5. National Children's fund	6. Donation given for charitable purpose to <ul style="list-style-type: none"> • Central Government • State Government • Local Government/Municipality
6. National Foundation for Communal Harmony	7. Donation to a state Govt. established corporation for benefit of MINORITY community.
7. An Approved university/ educational institute of National popularity / Eminence	
8. Chief Minister's Earthquake Relief Fund/ Gujarat Chief Minister's Earthquake Relief Fund	
9. Zila Saksharta Samiti	
10. National Blood Transfusion Council and State Council for Blood Transaction.	
11. State fund for the medical relief of the POOR	
12. Army Central Welfare Fund/the Indian Naval/ navy benevolent Fund/ Airforce Central Welfare Fund/Kargil Fund	
13. Andhra Pradesh Chief Minister's Cyclone Relief Fund	
14. Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund	
15. National sports Fund/ National Cultural Fund	
20. National Trust or welfare of persons with Autism, Cerebralplasi, Mental Retardation, Multiple Disabilities	
16. Swachh Bharat Kosh	
17. Clean Ganga Fund (amount donated by resident only)	
18. National fund for control of drug abuse	

Adjusted Total Income	<p>Adjusted Total Income means:</p> <p>‘Gross Total Income’ as reduced by:</p> <p>(1) LTCG u/s 112 & 112A;</p> <p>(2) STCG u/s 111A; and</p> <p>(3) Deductions allowable u/s 80C to 80U (except 80G).</p>
Steps for computation of qualifying limit & amount of deduction in category ‘C’ & ‘D’	<p>Step 1: Compute adjusted total income (as shown above)</p> <p>Step 2: Calculate 10% of adjusted total income</p> <p>Step 3: Calculate the actual donation which is subject to qualifying limit (total of category ‘C’ and ‘D’ donations shown in the table above)</p> <p>Step 4: Lower of Step 2 & Step 3 is the maximum permissible deduction.</p> <p>Step 5: The said deduction is adjusted first against donations qualifying for 100% deduction (i.e., category ‘C’ donations). Thereafter, balance qualifies for deduction u/s 80G @ 50% as the same remains out of category ‘D’ donations.</p>

Deduction i.r.o. Rent Paid for Residential Accommodation - [Section 80GG]

Eligible Assessee	Individuals (whether resident or non-resident)
Conditions	<p>(1) Assessee shall not be in receipt of House Rent Allowance (HRA).</p> <p>(2) Assessee has made payment of rent in respect of residential accommodation in excess of 10% of Adjusted Total Income.</p> <p>Note: Further, deduction u/s 80GG shall not be allowed if any residential accommodation is owned by assessee or his spouse or his minor child or by the HUF of which he is a member at a place where the assessee ordinarily resides or carries on business or profession or performs his duties of office or employment. And if he owns such accommodation at any other place then it should not be assessed in his hands as SOP(R).</p>

Deduction u/s 80GG	Deduction u/s 80GG shall be least of the following (a) Rs. 5,000 p.m. (b) 25% of Adjusted Total Income (c) Rent Paid (-) 10% of Adjusted Total Income
Adjusted Total Income	Adjusted Total Income means: 'Gross Total Income' as reduced by: (1) LTCG u/s 112 & 112A; (2) STCG u/s 111A; and (3) Deductions allowable u/s 80C to 80U (except 80GG).

Deduction i.r.o. Donations made to Research Associations, Universities, Colleges, Other Institutions notified u/s 35 or 35CCA - [Section 80GGA]

Eligible Assessee	Any Assessee (whether resident or non-resident) Note: The assessee should not have income from Business or Professional.
Eligible Amount	The assessee shall make donation or contribution to research associations, universities, colleges, other institutions notified u/s 35 or 35CCA for: - Scientific Research; or - Research in Social Scindas; or - Research in Rural Development; or - Conservation of Natural Resources; or - National Urban Poverty Eradication Fund; or - Eligible Project/Scheme Note: (1) No deduction shall be allowed in respect of donation of any sum exceeding Rs. 2,000 unless such sum is paid by way of any mode other than cash. (2) Also, where an assessee has claimed and has been allowed any deduction under this section in respect of any amount of donation, the same amount will not qualify for deduction under any other provision of the Act for the same or any other assessment year. (3) It is now mandatory for entities receiving donation to furnish a statement of donations received in relation to which the donor gets / claims deduction in his assessment. such donation receiving institution will issue a certificate to the donor/ payer and on the strength of the certificate the donor will get the deduction only

Deduction u/s 80GGA	Whole (i.e. 100%) of the amount donated or contributed to approved institutions or associations shall be allowed as deduction u/s 80GGA.
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Deduction i.r.o. Donations made to Political Parties or Electoral Trust - [Section 80GGB & Section 80GGC]

Section	80GGB	80GGC
Eligible Assesseees	Indian Company	Any Assessee (except Local Authorities & AJPs wholly or partly funded by the Government)
Eligible Amount	The assessee should have made donation or contribution to any Political Party or Electoral Trust. Note: No deduction shall be allowed in respect of donation of any sum unless such sum is paid by way of any mode other than cash (i.e. even Re. 1 donated or contributed by way of cash shall not be eligible for deduction u/s 80GGB/80GGC).	
Deduction u/s 80GGB/80GGC	Whole of the amount (i.e. 100%) of donated or contributed to any Political Party or Electoral Trust shall be allowed as deduction u/s 80GGB/80GGC.	

Deduction i.r.o. Royalty Income of Authors - [Section 80QQB]

Eligible Assesseees	Resident Individual being an Author (Joint Author is also included)
Eligible Income	Where the gross total income of the assessee includes any income derived as author. Such income may be received either by way of: <ul style="list-style-type: none"> - lumpsum consideration for the assignment or grant of any of his interest in the copyright of any book being a work of literary, artistic or scientific nature; or - by way of royalties or copyright fees (whether receivable in lump sum or otherwise) in respect of such book. Note: This deduction shall not, however, be available in respect of royalty income from textbook for schools, guides, commentaries, newspapers, journals, pamphlets and other publications of similar nature.

Deduction u/s 80QQB	<p>Deduction u/s 80QQB shall be least of the following:</p> <p>(a) Net Royalty Income (as stated above)</p> <p style="text-align: center;">OR</p> <p>(b) Maximum Amount u/s 80QQB = Rs. 3,00,000</p>
Other Points	<p>(a) Where the royalty or copyright fees is not received in lumpsum, amount in excess of 15% of the value of such books sold during the previous year shall be ignored.</p> <p>(b) If the income is earned from outside India, then, such income should be remitted to India within 6 months from the end of the previous year or the time extended by the RBI.</p> <p>(c) For claiming the deduction u/s 80QQB, the assessee shall have to furnish a certificate in the prescribed manner in the prescribed format, duly verified by the person responsible for making such payment, setting forth such particulars as may be prescribed.</p>

Deduction i.r.o. Royalty Income on Patents - [Section 80RRB]

Eligible Assessee	Resident Individual being a Patentee
Eligible Income	<p>Where the gross total income of the assessee includes any income derived as patentee i.e. the gross total income of the assessee includes 'royalty' in respect of patent i.e. consideration for:</p> <p>(a) transfer of all or any rights (including the granting of a licence) in respect of a patent; or</p> <p>(b) imparting of any information concerning the working of, or use of a patent; or</p> <p>(c) use of any patent; or</p> <p>(d) rendering of any services in connection with the activities referred in point no. (a) to (c) above.</p>
	<p>Note:</p> <p>The above royalty shall not include any consideration:</p> <p>(1) being income chargeable under the head 'Capital Gains'; or</p> <p>(2) for sale of product manufactured with the use of patented process or patented article for commercial use.</p>

Deduction u/s 80RRB	Deduction u/s 80RRB shall be least of the following: (a) Whole of the Royalty Income as stated above; OR (b) Maximum Amount u/s 80QQB = Rs. 3,00,000
Other Points	If the income is earned from outside India, then, such income should be remitted to India within 6 months from the end of the previous year or the time extended by the RBI.

Deduction i.r.o. Additional Employee Cost on Employment of New Employees - [Section 80JJAA]

Eligible Assesseees	Any Assessee to whom provisions of Section 44AB are applicable i.e. the assesseees covered under the tax audit provisions (resident as well as a non-resident). Note: The deduction u/s 80JJAA shall be allowable only to assesseees engaged in BUSINESS .
Condition	(a) The business should not be formed by splitting up or the reconstruction of an existing business. (b) The business is not acquired by the assessee by way of transfer from any other person or as a result of any business reorganisation. (c) The report of the accountant, giving the prescribed particulars, has to be furnished along with the return of income before the specified date referred to in section 44AB.
Deduction u/s 80JJAA	30% of Additional Employee Cost
Period of Deduction u/s 80JJAA	Deduction u/s 80JJAA shall be allowed for 3 assessment years including the assessment year relevant to the previous year in which such employment is provided.
Additional Employee Cost	Additional Employee Cost means total emoluments paid or payable to additional employees employed during the previous year

	In the first year of new business:	In the case of an existing business:
	Total emoluments paid or payable to employees employed during that previous year shall be taken as additional employee cost (whether by a mode other than cash or in cash)	The additional employee cost shall be taken as NIL if: (a) there is no increase in the number of employees from the total number of employees employed as on the last day of the preceding year; or (b) where the emoluments are paid otherwise than by an account payee cheque or account payee bank draft or by use of ECS through a bank account or through any other prescribed electronic mode.
Additional Employee:		
Means	An employee who has been employed during the previous year & whose employment has the effect of increasing the total number of employees employed by the employer as on the last day of the preceding year.	
Does not include	(a) Employee whose total emoluments > Rs. 25,000 p.m. (b) An employee employed for < 240 days in the previous year (in case of an assessee involved in the apparels business < 150 days in the previous year) (c) An employee who does not participate in RPF (d) An employee for whom the entire contribution is paid by the Govt. under the Employees' Pension Scheme notified in accordance with the provisions of the Employee's Provident Fund & Miscellaneous Provisions Act, 1952.	
Emoluments:		
Means	Any sum paid or payable to an employee in lieu of employment, by whatever name called.	
Does not include	(a) any contribution paid or payable by the employer to any: (i) Pension Fund; or (ii) Provident Fund, or (iii) Any Other Fund for the welfare of the employee under any law.	

	(b) any lumpsum payment paid or payable to an employee at the time of:
	(i) termination of his service, or
	(ii) superannuation ; or voluntary retirement such as gratuity , severance pay , leave encashment , voluntary retrenchment benefits , commutation of pension and the like.
	Note:
	In case of an emolument that is exempt (either wholly or in part) the gross emoluments are to be considered & not the net emoluments.

10AA Tax holiday for newly established units in Special Economic Zones (SEZ)

Where an assessee begins to manufacture or produce articles or things or provide any service on or after P.Y. 2006-2007 but upto P.Y. 2020 - 2021 in an unit set up in S.E.Z., a deduction of profits for 15 consecutive years shall be provided as follows.

- (1) 100% of profits derived from the export of such articles or things or from services for 5 consecutive years beginning from the year in which the unit begins to manufacture or produce or provide service.
- (2) 50% of profits from the export of such articles or things or from services for the next 5 years.
- (3) 50 % of profits from such export for the next 5 years, provided the profits are transferred to a special reserve called as “Special Economic Zone Re-investment Reserve Account” and are utilised for the prescribed purposes.
 - (1) This deduction is available only if return of income is filled on or before due date of section 139(1).
 - (2) Section 10AA deduction applies only to the unit which has received convertible foreign exchange within 6 months from end of financial year or extended time.

Amount of exemption

Profits from business of the unit $\times \frac{\text{Export Turnover of the unit}}{\text{Total Turnover of the unit}} \times 100\%$

$\times 100$ (for 1st 5 years)

AND $\times 50\%$ (for next 5 years)

AND $\times 50\%$ (for next 5 years, subject to transfer to reserve.

Question

MNO Ltd. has one undertaking at Special Economic Zone (SEZ). Following are the details given to you for the financial year 2023 -24.

	Unit in SEZ
Total Sales	200 L
Export Sales	150 L
Net Profit	40 L

Compute the quantum of eligible deduction under section 10AA for the A.Y. 2024-25 in the following situations:

- (i) If the unit was set up and began manufacturing from 25-07-2015
- (ii) If the unit was set up and began manufacturing from 10-04-2019

Solution:

- (i) If Unit in SEZ was set up and began manufacturing from 25-07-2015:

Since it is the 9th year of operation of the eligible unit, it shall be eligible for deduction upto 50% of the profit of such unit, assuming all the other conditions specified in section 10AA are fulfilled.

$$\text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of unit in SEZ}}{\text{Total turnover of unit in SEZ}} \times 50\%$$

$$40 \text{ lakhs} \times \frac{150 \text{ lakh}}{200 \text{ lakh}} \times 50\% = 15 \text{ lakhs}$$

- (ii) If Unit in SEZ was set up and began manufacturing from 10.04.2019:

Since it is 5th year of operation of the eligible unit, it shall be eligible for deduction upto 100% of profit of such unit.

$$\text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of unit in SEZ}}{\text{Total turnover of unit in SEZ}} \times 100\%$$

$$40 \text{ lakhs} \times \frac{150 \text{ lakh}}{200 \text{ lakh}} = 30 \text{ lakhs}$$

CLASSWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Determine the amount deductible under section 80QQB in the following cases pertaining to the assessment year 2024-25.

PARTICULARS	A	B	C
Royalty on books covered by section	90,000	6,00,000	----
	(Abroad)	(India)	
(% of value)	18%	(12.5%)	
Lump - sum payment for assignment of copyright	----	----	8,00,000
			(Abroad)
Expenditure for earning royalty / lump - sum	10,000	1,80,000	2,40,000
Amt. remitted into India in C.F.E. till 30.9.2024	70,000	----	7,00,000

Question 2

Mr Pradeep Bhushan donated as follows through account payee cheque in 2023-24:

Prime Minister's National Relief Fund	82,000
Africa (Public Contributions - India) Fund	22,000
University of Newyork, approved by IETS, USA	30,000
Andhra Pradesh Chief Minister's Cyclone Relief Fund (paid in cash)	54,000
Balaji Trust of Tirupati for renovation	1,03,000
BMC to be utilised for the purpose of promoting family planning	15,000
Indian Olympic Association	6,000
National Blood Transfusion Council and State Council for Blood Transfusion.	1,15,000
National Defence Fund set up by the Central Government	80,000
Prime Minister's Drought Relief Fund	40,000
Zila Saksharta Samiti (paid through debit card)	24,000
Lieutenant Governor's Relief Fund Pondicherry	11,000
Swach Bharat Kosh	10,000
Indian National Congress	2,000
National Fund for Rural Development (paid through crossed cheque)	7,000

Other Information:

1. He has salary income of ₹ 6,00,000(computed) and long term capital gain on sale of a commercial property ₹ 11,00,000/-.

2. He has invested in fixed deposits of various banks on which interest accrued during the year amounts to ₹ 30,000/-. Interest on saving bank account ₹ 6,500/-
 3. He has deposited ₹ 60,000 in Public Provident Fund and has incurred an expenditure of ₹ 15,000 on disabled brother (fully blind) dependant on him.
 4. Interest on education loan for son's MBA course ₹ 80,000/-. He has paid medical insurance premium of ₹ 27,000 in cheque for himself and his wife.
- Compute total income and tax payable.

Question 3

Mr. Manjesh, resident senior citizen, aged 62 years, gives the following information regarding his income in P.Y. 2023-24. Calculate income tax payable.

- (1) He sold a commercial property on 16.08.2023 for ₹ 25,00,000/-. This property was acquired by him on 27.04.2005 for ₹ 6,65,805. Brokerage paid on sale was 1.5% of sale consideration.
- (2) He also sold an urban land for ₹ 16,00,000 on 09.09.2023. This land was purchased 3 months ago for ₹ 12,50,000/- Brokerage on sale 1%.
- (3) He has paid medical insurance premium for himself ₹ 24,000, for wife ₹ 18,000 by account payee cheque and for his elder son ₹ 6,000. His elder son is employed in a company at a salary of ₹ 6,00,000 p.a. He has also paid ₹ 6,000 in cash on account of preventive health check-up of himself and wife.
- (4) Deposit under Senior Citizen saving scheme, 2004, ₹ 20,000/-. Deposit with SBI for 6 years ₹ 50,000/-.

Question 4

Mr. Shiva aged 61 years, has gross total income of ₹ 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:

- (i) Premium paid to insure the life of her major daughter (policy taken on 1.4.2014) (Assured value ₹ 1,80,000) – ₹ 20,000.
- (ii) Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000.
- (iii) Donation to a public charitable institution registered under 80G ₹ 1,50,000 by way of cheque.
- (iv) LIC Pension Fund – ₹ 60,000.
- (v) Donation to National Children's Fund – ₹ 25,000 by way of cheque
- (vi) Donation to Jawaharlal Nehru Memorial Fund – ₹ 25,000 by way of cheque
- (vii) Donation to approved institution for promotion of family planning – ₹ 40,000 by way of cheque. Compute the total income of Mr. Shiva for A.Y. 2024-25.

Question 5

Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the previous year ended 31.03.2024. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 2024-25 from the following particulars:

- (i) Life insurance premium paid to Birla Sunlife Insurance in cash amounting to ₹ 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2014 and the sum assured on life of his dependent parents is ₹ 1,25,000.
- (ii) Life insurance premium of ₹ 25,000 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹ 1,75,000 and the life insurance policy was taken on 30.3.2012.
- (iii) Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life. The insurance policy was taken on 08.09.2014 and the sum assured is ₹ 2,00,000.
- (iv) Premium of ₹ 22,000 paid by cheque for health insurance of self and his wife.
- (v) ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for health check-up for his parents, who are senior citizens.
- (vi) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
- (vii) A sum of ₹ 15,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

Question 6

For the Assessment Year 2024-25, the Gross Total Income of Mr. Chaturvedi, a resident in India, was Rs. 8,18,240 which includes long-term capital gain of Rs. 2,45,000 taxable under section 112 and Short-term capital gain of Rs. 58,000. The Gross Total Income also includes interest income of Rs. 12,000 from savings bank deposits with banks and Rs. 40,000 interest on fixed deposits with banks. Mr. Chaturvedi also contributed Rs. 50,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2023.

CLASSWORK SOLUTIONS

Answer 2

Mr. Pradeep Bhushan

Computation of total income and tax liability for A.Y. 2024-2025

Particulars	₹	₹
Income from Salary (computed)		6,00,000
Capital Gains		
L.T.C.G. on sale of commercial property, taxable u/s. 112 @ 20%		11,00,000
Income from Other Sources		
Interest on Bank F.D.	30,000	
Interest on savings bank account	6,500	36,500
GROSS TOTAL INCOME (G.T.I.)		17,36,500
Less: Deductions u/s. 80C to 80U		
u/s. 80C: Contribution to PPF	60,000	
u/s. 80D: Mediclaim premium paid (27,000 or max 25,000)	25,000	
u/s. 80DD: Maintenance of dependant (note)	1,25,000	
u/s. 80E: Interest on loan for higher education	80,000	
u/s.80GGA: Contribution to National Fund for Rural Development	7,000	
u/s. 80GGC: Donation to political party	2,000	
u/s.80G: Donation to specified funds/ organisations (W.N. 1)	3,88,050	
u/s. 80TTA: Interest on savings bank accounts	6,500	
Total Deductions u/s. 80C to 80U (I)	6,93,550	
GTI available (excluding L.T.C.G.) (II)	6,36,500	
Deductions allowable (I or II, whichever is less)		(6,36,500)
NET TAXABLE TOTAL INCOME (N.T.T.I.)		11,00,000
TAX LIABILITY		
Basic tax (W.N. 2)		1,70,000
Add: Health & Education cess @ 4%		6,800
TAX PAYABLE		1,76,800

W.N. 1 Deduction u/s. 80G

Category	Donations made	Donations eligible	%	Deduction
Unlimited - 100%	3,44,000	3,44,000	100	3,44,000
Unlimited - 50%	40,000	40,000	50	20,000
Limited - 100%	15,000	15,000	100	15,000
Limited - 50%	1,03,000	18,100	50	9,050
				3,88,050

A.T.I. = 17,36,500 – 11,00,000 – 60,000 – 25,000 – 1,25,000 – 80,000 – 7,000 – 2,000 – 6,500 = **3,31,000**

Total donations made to Limited category (15,000 + 1,03,000) 1,18,000

OR

10% of A.T.I. of ₹ 3,31,000

33,100

Whichever is less

Eligible amount = ₹ 33,100

100% Category

₹ 15,000

50% Category

₹ 18,100 (Balancing figure)

W.N. 2: Basic tax

N.T.T.I. (consisting of LTCG only)	₹ 11,00,000
Less: basic exemption limit, remaining fully unabsorbed	(₹ 2,50,000)
Taxable L.T.C.G.	₹ 8,50,000
x Tax rate u/s. 112	20%
Basic tax payable	₹ 1,70,000

Note: It has been assumed that the disabled brother does not claim deduction u/s. 80U and therefore Mr. Pradeep Bhushan is entitled to deduction u/s. 80DD.

Answer 3

Mr. Manjesh

Computation of Total Income and tax liability for A.Y. 2024-2025

Particulars	₹	₹
Capital Gains, which becomes G.T.I.		
- LTCG (W.N. 1)	4,82,157	
- STCG (W.N. 2)	3,34,000	
G.T.I.		8,16,157
Less: Deductions u/s. 80C to 80U		
u/s. 80C: Deposit with:-		
(a) Senior Citizen Savings Scheme, 2004	20,000	
(b) SBI for 6 years (within the overall limit of Sec 80C of ₹ 1,50,000)	50,000	(70,000)
u/s. 80D: Medclaim insurance premium paid for :-		
(a) Self (Senior citizen)	24,000	
(b) Spouse (Non Senior citizen)	18,000	
(c) Elder Son (Since independent)	NIL	
(d) Preventive health check - up [Maximum] (within the overall limit of Sec 80D of ₹ 50,000)	5,000	(47,000)
NET TAXABLE TOTAL INCOME (N.T.T.I.)		6,99,157
Rounded off u/s 288A		6,99,160
TAX LIABILITY		
Basic Tax (W.N. 3)		79,832
Add: Health & Education cess @ 4%		3,193
TAX PAYABLE		83,025
Rounded off u/s 288B	83,030	

W.N.1 L.T.C.G

Particulars	₹
Full value of consideration	25,00,000
Less: Transfer expenses: Brokerage= 1.5% x ₹ 25,00,000	(37,500)
Less: Indexed Cost of Acquisition	
(LTCA as h.p. > 24 months from 27.4.2005 to 16.8.2023)	(19,80,343)
(6,65,805 x 348 ÷ 117)	L.T.C.G. 4,82,157

LTCG, taxable u/s. 112 @ 20%

W.N.2 S.T.C.G	
Full value of consideration	16,00,000
Less: Transfer expenses: Brokerage= 1% x ₹ 16,00,000	(16,000)
Less: Cost of Acquisition(STCA as h.p. < 24 months from 10.6.2023 to 9.9.2023 i.e. 3 months)	(12,50,000)
STCG	3,34,000

W.N.3: Basic tax

N.T.T.I.	6,99,160
Less: L.T.C.G.	(4,82,158)
Normal Income taxable at slab rate	2,17,002
Less: Basic Exemption Limit applicable	(3,00,000)
UNABSORBED Exemption Limit	(82,998)
L.T.C.G	4,82,158
Less: Unabsorbed Exemption Limit	(82,998)
Taxable L.T.C.G.	3,99,160
x Tax rate u/s. 112	*20%
Basic tax payable	79,832

HOMEWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

- (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 section 80E.
- (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 ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is ₹ 44,000.
- (v) Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received ₹ 7 lakhs 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.

Question 2

Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y. 2024-25 is ₹ 4,60,000, paid house rent at ₹ 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.

Question 3

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 (₹)
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 ₹ 75 lakhs and his total turnover is 2.16 crores.

Question 4

Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the financial year 2023-24 furnishes you the following information:

- (i) Stamp duty paid on acquisition of residential house (self-occupied) – ₹ 50,000.
- (ii) Five year post office time deposit – ₹ 20,000.
- (iii) Donation to a recognized charitable trust ₹ 25,000 which is eligible for deduction under section 80G at the applicable rate .
- (iv) Interest on loan taken for higher education of spouse paid during the year ₹ 10,000.

Compute the total income of Mr. Rajmohan for the Assessment Year 2024-25.

Question 5

Compute the eligible deduction under Chapter VI-A for the Assessment year 2024-25 of Mr. Rama, who has a gross total income of ₹ 15,00,000 for the assessment year 2024-25 and provides the following information about her investments / payments during the year 2023-24:

SL. No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 01-01-2012 and sum assured is ₹ 3,00,000)	35,000
2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	1,40,000
5.	Mediclaim Policy taken taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizen)	52,000

HOMEWORK SOLUTIONS

Answer 1

- (i) The statement is correct. The deduction under section 80E available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative. For this purpose, relative means, inter alia, spouse and children of the individual. Therefore, Mr. Amit will get the deduction under section 80E. It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.
- (ii) The statement is correct. Under section 80C subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C.
- (iii) The statement is not correct. There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax i.e. it could be out of exempt income as well.
- (iv) The statement is not correct. Deduction under section 80E is in respect of interest paid on education loan. Hence, the deduction will be limited to ₹ 14,000.
- (v) The statement is not correct. A proviso has been inserted in section 80CCD to provide that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for A.Y. 2024-25.

Answer 2

The deduction under section 80GG will be computed as follows:

- (i) Actual rent paid less 10% of total income

$$\text{₹ } 1,44,000 (-) \frac{(10 \times 4,60,000)}{100} = \text{₹ } 98,000 \text{ (A)}$$

- (ii) 25% of total income

$$\frac{(25 \times 4,60,000)}{100} = \text{₹ } 1,15,000 \text{ (B)}$$

- (iii) Amount calculated at ₹ 5,000 p.m. = ₹ 60,000 (C)

Deduction allowable [least of (i), (ii) and (iii)] = ₹ 60,000

Answer 3

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2024-25, as his total turnover from business exceeds ₹ 1 crore and he has employed “additional employees” during the P.Y. 2023-24.

I. If Mr. A is engaged in the business of manufacture of computers

Additional employee cost = ₹ 24,000 × 12 × 75 [See Working Note below]

= ₹ 2,16,00,000

Deduction under section 80JJAA = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.

Working Note:

Number of additional employees

Particulars	No. of workmen	
Total number of employees employed during the year		360
Less: Casual employees employed on 1.8.2023 who do not participate in recognized provident fund	50	
Regular employees employed on 1.5.2023, since their total monthly emoluments exceed ₹ 25,000	125	
Regular employees employed on 1.9.2023 since they have been employed for less than 240 days in the P.Y. 2023-24.	100	275
Number of “additional employees”		75

Notes –

(i) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2023 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000. Also, 100 regular employees employed on 1.9.2023 do not qualify as additional employees for the P.Y. 2023-24, since they are employed for less than 240 days in that year.

Therefore, only 75 employees employed on 1.4.2023 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y. 2023-24 is deemed to be the additional employee cost.

(ii) As regards 100 regular employees employed on 1.9.2023, they would be treated as additional employees for previous year 2024-25, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. A for the A.Y. 2025-26.

Answer 4

Computation of total income of Mr. Rajmohan for the A.Y. 2024-25

Particulars	₹	₹
Gross total Income		6,40,000
Less: Deduction under Chapter VI-A		
Under section 80C		
Stamp duty paid on acquisition of residential house	50,000	
Five year time deposit with Post Office	20,000	
	70,000	
Under section 80E		
Interest on loan taken for higher education of spouse, being a relative.	10,000	
Under section 80G (See Note below)		
Donation to recognized charitable trust (50% of ₹ 25,000)	12,500	(92,500)
Total Income		5,47,500

Note: In case of deduction under section 80G in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income i.e., gross total income less deductions under Chapter VI-A except 80G. The adjusted total income is, therefore ₹ 5,60,000 (i.e. 6,40,000 – ₹ 80,000), 10% of which is ₹ 56,000, which is higher than the actual donation of ₹ 25,000. Therefore, the deduction under section 80G would be ₹ 12,500, being 50% of the actual donation of ₹ 25,000.

Answer 5

Computation of eligible deduction under Chapter VI-A of Ms. Rama for A.Y. 2024-25

Particulars	₹	₹
Deduction under section 80C		
Life insurance premium paid ₹ 35,000	35,000	
(allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 1.4.2012)		
Public Provident Fund	1,50,000	
Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000	
	2,05,000	
Restricted to a maximum of ₹ 1,50,000	1,50,000	

Deduction under section 80CCC for payment towards LIC pension fund	1,40,000	
	2,90,000	
As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to		1,50,000
Deduction under section 80D		
Payment of medical insurance premium of ₹ 30,000 towards medical policy taken for self, wife and dependent children restricted to	25,000	
Medical insurance premium paid ₹ 52,000 for parents, being senior citizen, restricted to	50,000	75,000
Eligible deduction under Chapter VI-A		2,25,000

RETURN OF INCOME

SECTION - WISE INTRODUCTION AND BRIEF PARTICULARS OF ASSESSMENT PROCEDURE

Types of Assessments:

Note 1 – Summary Assessment

Assessment is completed on the basis of return submitted by the assessee. Assessing Officer can make the following adjustments to the total Income declared in the return of Income:

1. Any arithmetical error
2. Any incorrect claim

An Intimation under section 143(1) should not be sent after expiry of 1 year from the end of Financial year in which return is filed

Note 2 – Regular assessment

Assessing officer will issue a notice to assessee under section 143(2) to take the case in scrutiny. Such notice shall be served on the assessee within 6 months from the end of financial year in which return is filed. After hearing such evidence as the assessee may produce and after taking into account all relevant material which assessing officer has gathered, he shall pass an order under section 143(3) determining the sum payable or refundable to the assessee.

Note 3 – Best Judgement assessment

Assessing officer after considering all materials which he has gathered is under an obligation to make assessment of total income or loss to the best of his judgement in some cases

1. If person fails to respond to a notice under section 142(1) (for Filing ROI)
2. If Person fails to respond to a scrutiny notice under section 143(2).

Introduction

- ✓ 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 by the assessee to the income tax department in a prescribed format known as return of income (i.e. ROI).
- ✓ In other words, a return of income is the declaration of income & tax liability by the assessee in the prescribed format.
- ✓ Such format for filing of returns by different assesseees is notified by the CBDT.

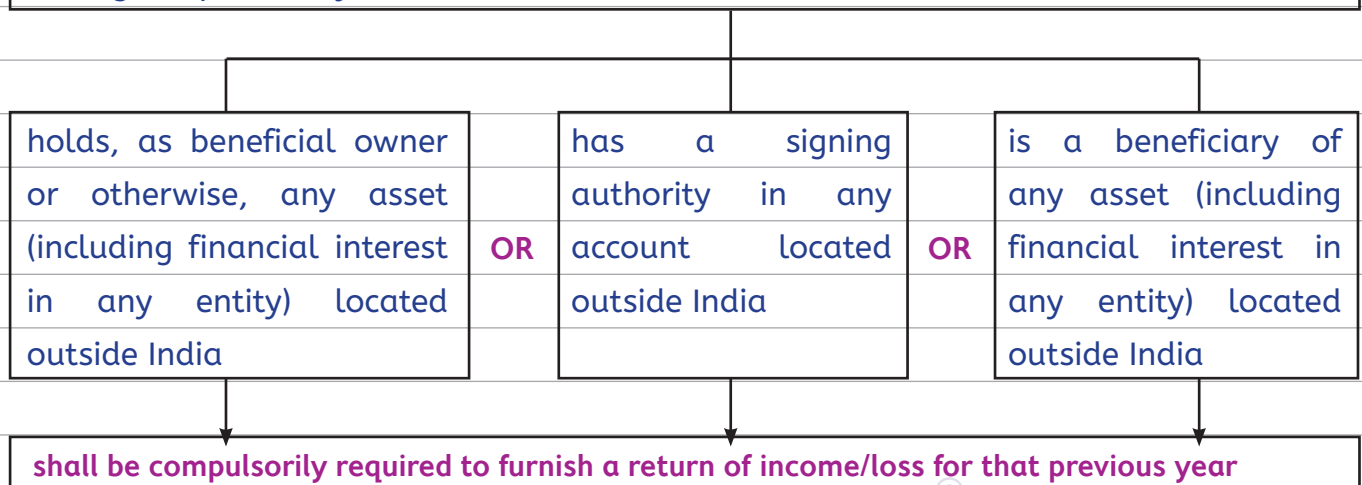
Compulsory Filing of the Return of Income - [Section 139]

(1)	Companies and Firms must file their return of income or loss for every previous year.
(2)	Every Person Other than a Company or a Firm , must file the return of income, if his total income or the total income of any other person in respect of which he is assessable under the Income Tax Act, 1961 during the previous year exceeds the basic exemption limit.
(3)	<p>Every Person, being a resident and ordinarily resident in India (i.e. ROR), who is not required to furnish a return u/s 139(1), shall 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 financial interest in any entity) 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>However, an individual being a beneficiary of any asset (including any financial interest in any entity) located outside India would not be required to file return of income, where, income (if any), arising from such asset is includible in the income of the person referred to in (a) above in accordance with the provisions of the Income Tax Act, 1961.</p> <p>Note:</p> <p>(a) 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.</p>

	<p>(b) Beneficiary: An individual who derives benefit from the asset during the previous year and the consideration for such asset has been provided by a person, other than such beneficiary.</p>
(4)	<p>(Finance Act' 2019 Amendment): Every person, being an individual or a HUF or an AOP / BOI, or an AJP whose total income or the total income of any other person in respect of which he is assessable under this Act during the previous year without giving effect to the provisions of Chapter VI-A or section 54 / 54B / 54D / 54EC or 54F exceeded the basic exemption limit is required to file a return of his income or income of such other person on or before the due date in the prescribed form and manner and setting forth the prescribed particulars.</p> <p>The basic exemption limit is ₹ 2,50,000 for individuals / HUFs / AOPs or BOIs / AJPs, ₹ 3,00,000 for resident senior citizens and ₹ 5,00,000 for resident very senior citizens.</p> <p>These amounts denote the level of total income, which is arrived at after claiming the admissible deductions under Chapter VI-A.</p> <p>However, the level of total income to be considered for the purpose of filing return of income is the income before claiming the admissible deductions under Chapter VI-A and section 54/54B/54D/54EC or 54F.</p>
(5)	<p>(Finance Act' 2019 Amendment): Any person other than a company or a firm, who is not required to furnish a return under section 139(1), is required to file income-tax return in the prescribed form and manner on or before the due date if, during the previous year, such person –</p> <p>(a) has deposited an amount or aggregate of the amounts exceeding ₹ 1 crore in one or more current accounts maintained with a bank; or</p> <p>(b) has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 2 lakhs for himself or any other person for travel to a foreign country; or</p> <p>(c) has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 1 lakh towards consumption of electricity; or</p> <p>(d) fulfils such other prescribed conditions</p>

Summary of Point No. (3):

A person who is a ROR **and** not required to file a return u/s 139(1) **and** who at any time during the previous year



Note:

(1) Every person, being an **Individual/a HUF / an AOP or a BOI / an AJP:**

- whose total income or the total income of any other person in respect of which he is assessable under this Act during the previous year;
- **without giving effect to the provisions of Chapter VI-A or section 54 / 54B / 54D / 54EC or 54F;**
- exceeded the basic exemption limit;

is required to file a return of his income or income of such other person on or before the due date in the prescribed form and manner and setting forth the prescribed particulars.

The basic exemption limit is ₹ 2,50,000 for individuals / HUFs / AOPs or BOIs / AJPs, ₹ 3,00,000 for resident senior citizens and ₹ 5,00,000 for resident very senior citizens.

These amounts denote the level of total income, which is arrived at after claiming the admissible deductions under Chapter VI-A.

However, the level of total income to be considered for the purpose of filing return of income is the income **before claiming the admissible deductions under Chapter VI-A and section 54 / 54B / 54D / 54EC or 54F.**

(2) Every person, who is compulsorily required to furnish a return of income or loss as per the above provisions, shall on or before the due date, furnish the return of income or loss, in the prescribed form and verified in the prescribed manner, setting forth such other particulars as may be prescribed.

(3) Although, it is mandatory to file return of income or loss, only in the situations covered in the table as above; but the law does not prohibit any person to file a return of income voluntarily even if such person is not statutorily required to do so.

(4) An assessee, in addition to filing the return of his own total income, is under an obligation to file the return of income of another person in respect of whom he is assessable.

This means that all the representative assesseees and legal representatives are under a liability to be assessed on income beneficially belonging to other person.

For example, legal guardian of a minor or a lunatic or an idiot, trustees of a trust, executors of an estate of a deceased person, liquidator of a company in liquidation.

Due Dates for Filing the Return of Income - [Section 139(1)]

Assessee	Due Dates
(1) Company	31st October of the Assessment Year
(2) Assesseees (Other than Company):	
(a) whose accounts are required to be audited under the Income Tax Act, 1961 or any other law; or	
(b) being a partner of a firm, whose accounts are required to be audited under the Income Tax Act, 1961 or any other law	
(3) Assesseees who have to file a transfer pricing report u/s 92E (i.e. assesseees who have undertaken international transactions)	30th November of the Assessment Year
(4) Every Other Case	31st July of the Assessment Year
Note:	
Where the last day of filing the return is a day on which the office is closed, the assessee can file the return on the next day afterwards on which the office is open, and in such cases, the return is deemed to have been filed within the specified time limit.	

Interest for Default in Furnishing Return of Income - [Section 234A]

- ✓ Interest u/s 234A is attracted for failure to file a return of income on or before the due date u/s 139(1) i.e. interest is payable where an assessee **furnishes the return of income after the due date or does not furnish the return of income.**
- ✓ **Simple interest @1% per month or part of the month** is payable for the period:
 - (a) **commencing** from the date immediately following the due date; and
 - (b) **ending** on the date of furnishing of the return (where the return is furnished after due date) or the date of completion assessment (where no return is furnished)
- ✓ The interest has to be **calculated on the amount of tax on total of income as determined u/s 143(1) or on regular assessment as reduced by the advance tax paid and any tax deducted or collected at source and any relief of tax allowed u/s 89.**
- ✓ No interest u/s 234A shall be charged on self-assessment tax paid by the assessee on or before the due date of filing of return.
- ✓ The interest payable u/s 234A shall be reduced by the interest, if any, paid on self-assessment u/s 140A towards interest chargeable u/s 234A.

Fee for Default in Furnishing Return of Income - [Section 234F]

Where a person, who is required to furnish a return of income u/s 139, fails to do so within the prescribed time limit u/s 139(1), he shall pay, by way of fee, a sum of: 5,000 rupees.

Note:

If the total income of the assessee **does not exceed ₹ 5,00,000**, then, the fees payable u/s 234F **shall not exceed ₹ 1,000.**

Option to Furnish Return of Income to Employer - [Section 139(1A)]

- ✓ This section gives an option to a person, being an individual who is in receipt of income chargeable under the head 'Salaries', 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 and subject to such conditions as may be specified therein.
- ✓ Such employer shall furnish all returns of income received by him on or before the due date, in such form (including on a floppy diskette, magnetic cartridge tape, CD-

ROM or any other computer readable media) and manner as may be specified in that scheme.

- ✓ In such a case, any employee who has filed a return of his income to his employer shall be deemed to have furnished a return of income u/s 139(1).

Specified Class or Classes of Persons to be Exempted from Filing Return of Income - [Section 139(1C)]

- ✓ As per the provisions of 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.
- ✓ For reducing the compliance burden of small taxpayers, the 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 satisfying the prescribed conditions.
- ✓ Every notification issued u/s 139(1C) shall, as soon as may be after its issue, be laid before each House of Parliament while it is in session, for a total period of thirty days. If both Houses agree in making any modification in the notification, the notification will thereafter have effect only in such modified form. If both Houses agree that the notification should not be issued, the notification shall thereafter have no effect.

Return of Loss - [Section 139(3)]

Provisions of Section 139(3)	<p>The return of loss shall be filed in the prescribed form & within the time prescribed u/s 139(1). Hence return of loss is deemed to be filed u/s 139(1). Further, section 80 requires mandatory filing of return of loss u/s 139(3) on or before the due date specified u/s 139(1) for carry-forward of the following losses:</p> <p>(a) Business losses (speculative as well as non-speculative);</p> <p>(b) Loss related to a business specified u/s 35AD;</p> <p>(c) Capital losses (Long-term as well as Short - term);</p> <p>Loss from an activity of owning & maintaining race horses.</p>
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Other Points	<p>(1) Loss under the head 'House Property' & 'Unabsorbed Depreciation' can be carried-forward & set-off without furnishing any return of loss u/s 139(3).</p> <p>(2) Section 139(3) read with Section 80, does not prohibit the set-off of losses of current year while computing the total income even if the return is filed after the due date. It only prohibits the carry-forward of losses.</p> <p>Although the losses of current year cannot be carried-forward unless the return is filed on or before the due date but the brought-forward losses of earlier years (for which the returns were filed on or before the due dates & such losses were assessed) can be carried-forward to subsequent assessment years.</p>
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Belated Return - [Section 139(4)]

Provisions of Section 139(4)	<p>✓ If the return for any previous year is not furnished within the time allowed u/s 139(1), then, the assessee may furnish the return for such previous year as belated return at any time:</p> <p>(a) Before three months prior to the end of the assessment year; or (b) before the completion of assessment whichever is earlier</p> <p>The return so furnished after the due date but on or before the above time limit shall be treated as a belated return.</p>
Example	<p>An assessee is supposed to file the return for A.Y. 2023-24 by 31st July, 23. If he does not file such return upto 31st July, 2023, then such return, if submitted after the said date, shall be treated as a belated return. Such belated return may be submitted on or before 31-12-23 (3 month prior to end of A.Y.). If, however, the assessment is completed before 31st December, 2023, then such return should be submitted before the completion of assessment.</p>

Consequences of filing a Belated Return	<p>If the assessee files a belated return u/s 139(4), then, following consequences shall be attracted. These consequences shall be attracted even if the assessee has filed the belated return within the time limit prescribed u/s 139(4):</p> <p>(a) The assessee shall be liable for penal interest u/s 234A.</p> <p>(b) The assessee shall be liable to late filing fees u/s 234F</p> <p>(c) If the return of loss is submitted after the due date u/s 139(1), then, losses cannot be carried-forward.</p> <p>However, the loss under the head 'House Property' & 'Unabsorbed Depreciation' can be carried-forward.</p> <p>If return is submitted after the due date, certain deductions under the Income Tax Act, 1961 which are specifically allowed only if the return is filed on or before the due date, shall not be available.</p>
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Revised Return - [Section 139(5)]

Provisions of Section 139(5)	<p>✓ If the assessee, having furnished the return for any previous year u/s 139(1) or 139(3) or 139(4), discovers any omission or wrong statement in such return, then, he may furnish a revised return u/s 139(5) at any time:</p> <p>(a) Before three months prior to the end of the assessment year; or</p> <p>(b) before the completion of assessment</p> <p>whichever is earlier</p>
Example	<p>For the A.Y. 2023-24, a revised return can be filed before the end of the assessment year (i.e. upto 31st December, 2023). If, however, the assessment is completed before 31st December, 2023, then such return should be submitted before the completion of assessment.</p>
Other Points	<p>(1) The returns filed u/s 139(3) is deemed to be filed u/s 139(1). Hence, a return filed u/s 139(3) can be revised u/s 139(5).</p> <p>(2) Once a revised return is filed, the originally filed return is taken to have been withdrawn & substituted by the revised return. Hence, a second revised return can be filed u/s 139(5) for correcting any omission or wrong statement made in the first revised return. However, the same should be submitted within the time limit as prescribed above.</p>

	(3) There is no provision in the Income Tax Act, 1961 to seek permission to revise a return. It is a right of the assessee to submit such return.
	(4) Where omission or wrong statement in the original return filed u/s 139(1) or u/s 139(4) is discovered by department as a result of enquiry and thereafter a return is furnished, making amendment therein, that would not amount to a revised return.

Particulars to be Furnished with the Return of Income - [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
- (v) such other outgoings as may be prescribed.

Particulars to be Furnished with Return of Income in the case of an Assessee engaged in any 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 names and addresses of his partners, if any, 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.

Provisions for Furnishing Return, if not Furnished Earlier [Section 139(8A)]

If any person has NOT furnished a return u/s 139(1)/(4)/(5) for an assessment year, may furnish it within 24 months from the end of the relevant assessment year.

Such provisions are not applicable for increase in loss or decreasing tax liability or increasing refund of such a year.

Defective or Incomplete Return - [Section 139(9)]

<p>Provisions of Section 139(9)</p>	<p>✓ Where the A.O. considers that return furnished by assessee is defective, he is given the discretion to intimate the defect to the assessee & give him an opportunity to rectify the defect within 15 days from the date of such intimation or such further extended period as he may consider reasonable.</p> <p>✓ If the defect is not rectified within the given time then the A.O. can treat the return as invalid return & other provisions of the Income Tax Act, 1961 would apply as if the assessee had failed to furnish the return.</p> <p>✓ If the defect is rectified by the assessee after the period specified as above but before the assessment is made, then the A.O. may condone the delay and treat such return as a valid return.</p>
<p>What is a Defective or Incomplete Return</p>	<p>A return of income shall be regarded as defective unless all the following conditions are fulfilled, namely:</p> <p>(a) The annexures, statements and columns in the return of income relating to computation of income chargeable under each head of income, computations of gross total income and total income have been duly filled in.</p> <p>(b) The return of income is accompanied by the following, namely:</p> <p>(i) a statement showing the computation of the tax payable on the basis of the return.</p> <p>(ii) the report of the audit obtained u/s 44AB (If such report has been furnished prior to furnishing the return of income, a copy of such report and the proof of furnishing the report should be attached).</p> <p>(iii) the proof regarding the tax, if any, claimed to have been deducted or collected at source and the advance tax and tax on self-assessment, if any, claimed to have been paid. (However, the return will not be regarded as defective if (a) a certificate for tax deducted or collected was not furnished u/s 203 or section 206C to the person furnishing his return of income, (b) such certificate is produced within a period of 2 years).</p> <p>(iv) the proof of the amount of compulsory deposit, if any, claimed to have been paid under the Compulsory Deposit Scheme (Income-tax Payers) Act, 1974;</p>

	(c) Where regular books of account are maintained by an assessee, the return of income is accompanied by the following:						
	(i) copies of manufacturing account, trading account, profit and loss account or income and expenditure account, or any other similar account and balance sheet;						
	(ii) the personal accounts as detailed below:						
	<table border="1"> <tr> <td>Proprietary business or profession</td> <td>The personal account of the proprietor</td> </tr> <tr> <td>Firm, association of persons or body of individuals</td> <td>personal accounts of partners or members</td> </tr> <tr> <td>Partner or member of a firm, association of persons or body of individuals</td> <td>partner's personal account firm member's personal account in the association of persons or body of individuals</td> </tr> </table>	Proprietary business or profession	The personal account of the proprietor	Firm, association of persons or body of individuals	personal accounts of partners or members	Partner or member of a firm, association of persons or body of individuals	partner's personal account firm member's personal account in the association of persons or body of individuals
Proprietary business or profession	The personal account of the proprietor						
Firm, association of persons or body of individuals	personal accounts of partners or members						
Partner or member of a firm, association of persons or body of individuals	partner's personal account firm member's personal account in the association of persons or body of individuals						
	(d) Where the accounts of the assessee have been audited, the return should be accompanied by copies of the audited profit and loss account and balance sheet and the auditor's report.						
	(e) Where the cost accounts of an assessee have been audited u/s 148 of Companies Act, 2013, the return should be accompanied by such report.						
	(f) Where regular books of account are not maintained by the assessee, the return should be accompanied by:						
	(i) a statement indicating:						
	(a) the amount of turnover or gross receipts						
	(b) gross profit						
	(c) expenses; and						
	(d) net profit of the business or profession;						
	(ii) the basis on which such amounts mentioned in (i) above have been computed;						
	(iii) the amounts of total sundry debtors, sundry creditors, stock-in-trade and cash balance as at the end of the previous year.						

Note:

- (i) Many of these particulars are now incorporated as part of the relevant income tax return form. For example, details of tax deducted at source, advance tax paid, self-assessment tax paid, amount of turnover / gross receipts etc.
- (ii) The CBDT has the powers of relieving some conditions in relation to such class of assessee as may be specified in the notification.

Permanent Account Number (PAN) - [Section 139A]

PAN Meaning	<p>'PAN' stands for 'Permanent Account Number'. It is a unique 10 digit alphanumeric code issued by the income tax department to the assessee for the purpose of identification of the assessee as per the provisions of the Income Tax Act, 1961.</p> <p>Apart from the identification of the assessee, the PAN serves various other purposes under the Income Tax Act, 1961.</p>
Persons compulsorily required to obtain PAN	<p>(1) As per the provisions of section 139A(1), following persons, who have not been allotted a PAN, are compulsorily required to apply to the A.O. within the prescribed time for the allotment of a PAN:</p> <ul style="list-style-type: none"> (a) Every person whose total income or the total income of any other person in respect of which he is assessable under this Act during any previous year exceeded the basic exemption limit; or (b) Any person carrying on business or profession whose turnover or gross receipts exceeds or likely to exceed ₹ 5,00,000 in any previous year; or (c) Every person, being a resident, other than an individual, which enters into a financial transaction of an amount aggregating to ₹ 2,50,000 or more in a financial year; or (d) Every person who is the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of the person mentioned in (c) above or any person competent to act on behalf of such person.

	<p>(2) As per the provisions of section 139A(1A), the Central Government is empowered to specify, by notification in the Official Gazette, any class or classes of persons by whom tax is payable under the Act or any tax or duty is payable under any other law for the time being is force.</p> <p>Such persons are required to apply within such time as may be mentioned in that notification to the A.O. for the allotment of a PAN.</p>
	<p>(3) As per the provisions of section 139A(1B), for the purpose of collecting any information which may be useful for or relevant to the purposes of the Act, the Central Government may notify any class or classes of persons, and such persons shall within the prescribed time, apply to the A.O. for allotment of a PAN.</p>
	<p>(4) As per the provisions of section 139A(2), the A.O., having regard to the nature of transactions as may be prescribed, may also allot a PAN to any other person (whether any tax is payable by him or not) in the manner and in accordance with the procedure as may be prescribed.</p>
Voluntary Application for PAN	<p>A.O. may also allot PAN to any person who is not covered above. In short, any other person may also voluntarily apply to obtain a PAN.</p>
More than one PAN	No person who has already been allotted PAN, shall apply, obtain or possess another PAN.
PAN Application Form	<p>The assessee shall make an application for obtaining PAN in Form 49A.</p> <p>Note: However, the application for obtaining PAN shall be made in Form 49AA in case of individuals who are not Indian citizens or entities incorporated outside India or unincorporated entities formed outside India.</p>
Mandatory Quoting of PAN	<p>(a) in all the returns or correspondences with the income tax authorities;</p> <p>(b) in all the challans for payment of any sum under the Income Tax Act, 1961;</p> <p>(c) in all documents pertaining to transactions, prescribed by the CBDT in the interests of revenue. In this connection, the CBDT has notified the following transactions, namely:</p>

		Nature of transaction	Value of trans- action
		(1) Sale or purchase motor vehicles (other than two wheeled vehicles)	All such transactions
		(2) Opening an A/c with a banking company or a cooperative bank (other than a time deposit referred to at Sr. No. 12 and a basic savings bank deposit A/c)	All such transactions
		(3) Making an application to any banking company or a co-operative bank or to any other company or institution, for issue of a credit or debit card	All such transactions
		(4) Opening of a demat A/c with a depository participant, custodian of securities or any other person registered under the SEBI Act, 1992	All such transactions
		(5) Payment to a hotel or restaurant against a bill or bills at any one time.	Payment in cash of an amount exceeding ₹ 50,000.
		(6) Payment in connection with travel to any foreign country or payment for purchase of any foreign currency at any one time.	Payment in cash of an amount exceeding ₹ 50,000.
		(8) Payment to a company or an institution for acquiring debentures issued by it	Amount exceeding ₹ 50,000
		(9) Payment to the Reserve Bank of India for acquiring bonds issued by it.	Amount exceeding ₹ 50,000

	(10)	Deposit with a banking company or a co-operative bank or post office	Cash deposits exceeding ₹ 50,000 during any one day.
	(11)	Purchase of bank drafts or pay orders or banker's cheques from a banking company or a co-operative bank.	Payment in cash of an amount exceeding ₹ 50,000 during any one day.
	(12)	A time deposit with: (a) any banking company or a cooperative bank; (b) a post office; (c) a nidhi company; (d) a non-banking financial company which holds a certificate of registration from the RBI, to hold or accept deposit public	Amount exceeding ₹ 50,000 or aggregating to more than ₹ 5,00,000 during a financial year.
	(13)	Payment for one or more pre-paid payment instruments, as defined in the policy guidelines for issuance operation of pre-paid payment and instruments issued by the RBI under the Payment and Settlement Systems Act, 2007, to a banking company or a co-operative bank or to any other company or institution.	Payment in cash or by way of a bank draft or pay order or banker's cheque of an amount aggregating to more than ₹ 50,000 in a financial year.
	(14)	Payment as life insurance premium to an insurer	Amount aggregating to more than ₹ 50,000 in a financial year.

(15)	A contract for sale or purchase of securities (other than shares)	Amount exceeding ₹ 1,00,000 per transaction.
(16)	Sale or purchase, by any person, of shares of a company not listed on a recognised stock exchange.	Amount exceeding ₹ 1,00,000 per transaction.
(17)	Sale or purchase of any immovable property.	Amount exceeding ₹ 10,00,000 or valued by stamp valuation authority referred to in section 50C at an amount exceeding ₹ 10,00,000.
(18)	Sale or purchase, by any person, of goods or services of any nature other than those specified at Sr. No. 1 to 17 above.	Amount exceeding ₹ 2,00,000 per transaction.

Note:

(1) Minor to quote PAN of Parent or Guardian:

Where a person, entering into any transaction referred to in this rule, is a minor and who does not have any income chargeable to income-tax, he shall quote the PAN of his father or mother or guardian, as the case may be, in the document pertaining to the said transaction.

(2) Declaration by a person not having PAN

Further, any person who does not have a PAN and who enters into any transaction specified as above, shall make a declaration in Form No. 60 giving therein the particulars of such transaction either in paper form or electronically.

	<p>(3) Non-applicability of Rule 114B</p> <p>Also, the provisions of this rule shall not apply to the following class or classes of persons, namely:</p> <p>(a) the Central Government, the State Governments and the Consular Offices;</p> <p>(b) the non-residents referred to in section 2(30) in respect of the transactions other than a transaction referred to at Sr. No. 1, 2, 4, 7, 8, 10, 12, 14, 15, 16 and 17 of the above table.</p> <p>(4) Every person who receives any document relating to any transaction cited above shall ensure that the PAN is duly quoted in the document.</p>
<p>Intimation of PAN to person deducting tax at source</p>	<p>As per the provisions of section 139A(5A), every person who receives any amount from which tax has been deducted at source shall intimate his PAN to the person responsible for deducting such tax.</p> <p>Note:</p> <p>Quoting of PAN in certain documents:</p> <p>As per the provisions of section 139A(5B), where any amount has been paid after deducting tax at source, the person deducting tax shall quote the PAN of the person to whom the amount was paid in the following documents:</p> <p>(a) in all TDS certificates issued to the person to whom payment is made;</p> <p>(b) in all TDS returns made to the prescribed income tax authority.</p>
<p>Intimation of Change to A.O.</p>	<p>Every person having PAN, shall intimate the A.O., any change in the address or in the name or nature of business on the basis of which the PAN was initially allotted to him.</p>
<p>Non-compliance of Section 139A</p>	<p>Failure to comply with the provisions of section 139A or quoting wrong PAN shall attract penalty of ₹ 10,000 (for each default) u/s 273B.</p>

Quoting of Aadhar Number - [Section 139AA]

<p>Mandatory quoting of Aadhar Number</p>	<p>Every person who is eligible to obtain Aadhar Number is required to mandatorily quote Aadhar Number, on or after 1st July, 2017:</p> <p>(a) in the application form for allotment of PAN; and</p> <p>(b) in the return of income</p>
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Where person does not have Aadhar Number	<p>If a person does not have Aadhar Number, he is required to quote Enrolment ID of Aadhar application form issued to him at the time of enrolment in the application form for allotment of PAN or in the return of income furnished by him.</p> <p>Enrolment ID means a 28-digit Enrolment Identification Number issued to a resident at the time of enrolment for Aadhar.</p>
Intimation of Aadhar Number to prescribed Authority	<p>Every person who has been allotted PAN as on 1st July, 2017, and who is eligible to obtain Aadhar Number, shall intimate his Aadhar Number to prescribed authority on or before a date as may be notified by the Central Government.</p>
Consequences of failure to intimate Aadhar Number	<p>If a person fails to intimate the Aadhar Number, the PAN allotted to such person shall be deemed to be invalid and the other provisions of the Income Tax Act, 1961 shall apply, as if the person had not applied for allotment of PAN.</p> <p>If a person fails to intimate his Aadhar number u/s 139AA, he will be liable to pay a fee of not exceeding 1,000/-.</p> <p>Note: To give effect to the ruling of Hon'ble Supreme Court on Aadhar Card linkage, the CBDT vide Press Release dated 10th June 2017, clarified that in consequence of failure to intimate Aadhar Number, the PAN of those who do not have Aadhar and who do not wish to obtain Aadhar for the time being, shall not be cancelled so that other consequences under the Income Tax Act, 1961 for failing to quote PAN may not arise.</p>
Provision not to apply to certain person or class of persons	<p>The provisions of section 139AA relating to quoting of Aadhar Number would, however, not apply to such person or class or classes of persons or any State or part of any State as may be notified by the Central Government.</p> <p>Note: The Central Government has, vide Notification No. 37/2017, dated 11-05-2017, effective from 01-07-2017, notified that the provisions of section 139AA would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:</p> <p>(a) residing in the state of Assam, Jammu & Kashmir and Meghalaya;</p> <p>(b) a non-resident as per Income-tax Act, 1961;</p> <p>(c) of the age of ≥ 80 years at any time during the previous year;</p> <p>(d) not a citizen of India</p>

Submission of returns through Tax Return Preparers (TRPs) - [Section 139B]

- (1) For the purpose of enabling any specified class or classes of persons to prepare & furnish return of income, the CBDT may, by way of notification, frame a scheme providing that such persons may furnish their returns of income through a TRP authorized to act as such under the scheme.
- (2) The scheme framed shall specify the manner in which the TRP shall assist the persons furnishing the return of income, and shall also affix his signature on such return.
- (3) **A TRP means any individual, other than:**
 - (i) any officer of a scheduled bank with which the assessee maintains a current A/c or has regular dealings;
 - (ii) any legal practitioner who is entitled to practice in any civil court in India;
 - (iii) a chartered accountant;
 - (iv) company secretary - [Notification No 66/2016, dated 09-08-2016]
 - (v) cost accountant - [Notification No 66/2016, dated 09-08-2016]
 - (vi) an employee of the 'specified class or classes of persons'.

The 'specified class or classes of persons' for this purpose means any person other than a company or a person whose accounts are required to be audited u/s 44AB (tax audit) or under any other existing law, who is required to furnish a return of income under the Act.

- (4) **The Scheme notified under the said section may provide for the following:**
 - (i) the manner in which and the period for which the Tax Return Preparers shall be authorised;
 - (ii) the educational and other qualifications to be possessed, and the training and other conditions required to be fulfilled, by a person to act as a Tax Return Preparer;
 - (iii) the code of conduct for the Tax Return Preparers;
 - (iv) the duties and obligations of the Tax Return Preparers;
 - (v) the circumstances under which the authorisation given to a Tax Return Preparer may be withdrawn; and
 - (vi) any other relevant matter as may be specified by the Scheme.

(5) Accordingly, the CBDT has, in exercise of the powers conferred by this section, framed the Tax Return Preparer Scheme, 2006, which came into force from 01-12-2006.

Particulars	Contents
Applicability of the TRP Scheme	The scheme is applicable to all eligible persons
Eligible Person	Any person being an individual or a HUF.
TRP	Any individual who has been issued a "Tax Return Preparer Certificate" and a "Unique Identification Number" under this scheme by the Partner Organisation to carry on the profession of preparing the returns of income in accordance with the scheme. However, the person referred in point no. (3) above are not entitled to act as TRPs.
Educational Qualification for TRPs	An Individual: (a) who holds a bachelor degree from a recognised Indian University or institution; or (b) has passed the intermediate level examination conducted by the ICAI or the ICSI or the ICWAI, shall be eligible to act as TRP.
Preparation of and furnishing the Return of Income by the TRPs	An eligible person may, at his option, furnish his return of income u/s 139 for any assessment year after getting it prepared through a TRP. However, the following eligible person (an individual or a HUF) cannot furnish a return of assessment year through a TRP: (a) who is carrying out business or profession during the previous year and accounts of the business or profession for that previous year are required to be audited u/s 44AB or under any other law for the time being in force; or (b) who is not a resident in India during the previous year. An eligible person cannot furnish a revised return of income for any assessment year through a TRP, unless he has furnished the original return of income for that assessment year through such or any other TRP.

Power of CBDT to dispense with furnishing documents etc. with the Return and Filing of Return in Electronic Form - [Sections 139C & 139D]

✓ **Section 139C:**

- (a) 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 required to be furnished along with the return under any other provisions of this Act.
- (b) However, on demand, the said documents, statements, receipts, certificate, reports of audit or any other documents have to be produced before the A.O.

✓ **Section 139D:**

Section 139D empowers the CBDT to make rules providing for:

- (a) the class or 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 A.O. on demand;
- (d) the computer resource or the electronic record to which the return of income in electronic form may be transmitted.

Signing & Verification of Return - [Section 140]

This section specifies the persons who are authorized to verify the return of income u/s 139.

Assessee	Circumstances	Authorised Persons
Individual	1. In circumstances not covered by point no. (2), (3) & (4) below	Individual himself
	2. Where the individual concerned is absent from India	Any person duly authorised by him in this behalf holding a valid power of attorney from such individual (such power of attorney should be attached to the return of income)
	3. Where the individual is mentally incapacitated from attending to his affairs	Legal guardian or a person competent to act on his behalf

	4. Where for any other reason, it is not possible for the individual to sign the return	Any person duly authorised by him in this behalf holding a valid power of attorney from such individual (such power of attorney should be attached to the return of income)
HUF	1. In circumstances not covered by point no. (2) & (3) below	Karta of the HUF
	2. Where the karta is absent from India	Any other adult member of the HUF
	3. Where the karta is mentally incapacitated from attending to his affairs	Any other adult member of the HUF
Company	1. In circumstances not covered by point no. (2), (3), (4), (5) & (6) below	Managing director of the company
	2. Where for any unavoidable reason, such managing director is not able to verify the return or there is no managing director	Any other director of the company or any other person as may be prescribed for this purpose.
	3. Where the company is not resident in India	A person who holds a valid power of attorney from such company to do so (such power of attorney to be attached with the return)
	4. Where the company is being wound up or where any person has been appointed as the receiver of any assets of the company	Liquidator of the company
	5. Where the management of the company has been taken over by the Central Government or any State Government under any law	Principal officer of the company

	6. Where an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under the Insolvency and Bankruptcy Code, 2016	Insolvency professional appointed by such Adjudicating Authority
Firm	1. In circumstances not covered by point no. (2) below	Managing partner of the firm
	2. Where, for any unavoidable reason, such managing partner is not able to sign or there is no managing partner	Any other partner of the firm
LLP	1. In circumstances not covered by point no. (2) below	Designated partner of the LLP
	2. Where, for any unavoidable reason, such designated partner is not able to sign or there is no designated partner	Any other partner of the LLP or any other person as may be prescribed for this purpose.
Local Authority	----	Principal officer thereof
Political Party	----	Chief executive officer of political party (whether he is known as secretary or by any other designation)
Any other Association	----	Any member or the principal officer thereof
Any other Person	----	Person himself or by some other person competent to act on his behalf

Self-Assessment - [Section 140A]

(1) Payment of tax, interest and fee before furnishing return of income:

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

- (i) the amount of tax, already paid, under any provision of the Income Tax Act, 1961

- (ii) the tax deducted or collected at source; and
- (iii) any relief of tax claimed under section 89

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

(2) Order of adjustment of amount paid by the assessee:

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

(3) Interest u/s 234A:

For the above purpose, interest payable u/s 234A shall be computed on the amount of tax on the total income as declared in the return, as reduced by the amount of:

- (i) advance tax paid, if any;
- (ii) any tax deducted or collected at source;

(4) Interest u/s 234B:

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

For this purpose 'assessed tax' means the tax on total income declared in the return as reduced by the amount of tax deducted or collected at source on any income which forms part of the total income; and any relief of tax claimed under section 89.

(5) Consequence of failure to pay tax, interest or fee:

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

CLASSWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Following information is given regarding certain persons.

Assessee	NTI	Sources of Income	Turnover / Gross receipt ₹	Solution
A Pvt. Ltd.	38,00,000	Business, IFOS	25,60,00,000	
Mr. A	1,80,000	Salary, HP & OS	N.A.	
	(80C - 1 Lac)			
Prashad	6,40,000	Business, C.G.	1,00,00,000	
Babubhai	8,20,100	Partner in CA firm	Firm's receipts ₹ 56,00,000	
Rohit	5,00,000	Sleeping partner in trading firm	Firm's turnover ₹ 2 crore	

Discuss whether the above persons are required to submit return of income for the assessment year 2024-25 (if yes, indicate due date for furnishing the return).

Question 2

Discuss the correctness or otherwise of the following:

- Mr. Pinakin having business loss of ₹ 1,20,000 (after providing for depreciation of ₹ 80,000) furnishes his return of income on 5.8.2024 (turnover for 2023-24 ₹ 100 lacs). He wants to carry forward ₹ 1,20,000.
- Mr. Anil has furnished his return of income for the assessment year 2024-25 on 31st March, 2025. The assessment was completed on the basis of such return on 10th May, 2025.
- Mr. Quadro has furnished his return of income for the assessment year 2024-25 on 11th April, 2025. The assessment was completed on the basis of such return on 8th May, 2025.
- Mr. Siddhu didn't file any return of income for the assessment year 2024-25 and his assessment for that year was completed on 31st January, 2025. He furnishes return of income u/s 139(4) on 18.2.2025.
- Mr. Chinumama having loss from other sources of ₹ 10,000 furnishes his return on 30.7.2024. He wants to carry forward such loss for set off in subsequent years.

Question 3

Mr. Vineet submits his return of income on 12-09-2024 for A.Y 2024-25 consisting of income under the head salaries, “Income from house property” and bank interest. On 21-01-2025, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Discuss.

Question 4

Mr. A (aged 67 years) has earned following Income.

Income from House Property		2,00,000
Long - term Capital Gain on sale of RHP	3,00,000	
Less: Exempt u/s 54	(3,00,000)	NIL
Income from other sources		
Interest on Bank of D	30,000	
Interest on saving D	9,000	39,000
Gross Total Income		2,39,000
Less : Deduction under chapter VI- A		
Sec. 80 TTB : Interest		(39,000)
Net Total Income		2,00,000

Whether he is required to furnish the Return of Income, if yes then specify the due date.

N.T.T.I.	:	2,00,000
Add :		
- u/s 54	:	3,00,000
- Deduction u/s 80TTB	:	39,000
Total	:	5,39,000

Even though his N.T.T.I. is < 3,00,000, he has to file a return on 31/7/24 and not to pay any tax, since income tax department will verify if he has claimed the exemption u/s 54 & deduction u/s 80TTB correctly or not.

CLASSWORK SOLUTIONS

Answer 2

- Mr. Pinakin can carry forward unabsorbed depreciation of ₹ 80,000 as Section 139(3) does not apply to unabsorbed depreciation.

The due date for filing the return of income for Mr. Pinakin u/s. 139(1) for A.Y. 2023-2024 is 31st July 2024 (since the turnover for P.Y. 2023-24 is exactly ₹ 1 crore, tax audit u/s. 44AB is not applicable). The ROI has been filed on 5.8.2024 i.e. after the due date u/s. 139(1). Accordingly, he cannot carry forward business loss of ₹ 40,000/-

- The last date for filing a belated return for A.Y. 2024-25 u/s.139(4) is as follows:

3 months prior to completion of Ay.	OR	31-12-2024
Completion of Assessment		10-5-2025
Whichever is earlier		

In the given case, since the ROI has been filed on 31-3-2025, it is an invalid belated return.

- The last date for filing a belated return for A.Y. 2024-25 u/s.139(4) is 31-12-2024 (same as point 2 above). Since the ROI has been filed on 11-4-2025, it is an invalid belated return. Assessment completed on the basis of invalid return, is also invalid.
- The last date for filing a belated return for A.Y. 2024-25 u/s.139(4) is 31-12-2024 or 31-1-2025, whichever is earlier i.e. 31-12-2024. Since the ROI has been filed on 18-2-2025, it is an invalid belated return.

The assessment performed by the Income tax department in this case is Best Judgment Assessment since the ROI was filed by the assessee after completion of the assessment. In other words, at the time of performing assessment, there was no ROI filed by the assessee.

- If the loss of ₹ 10,000 is from the activity of owning and maintaining race horses, then the assessee will be allowed to carry forward such loss (as per Section 74A) since the ROI was filed before the applicable due date.
However, if this loss is any “Other Loss” i.e. not from the activity of owning and maintaining race horses, there is no section in the Income tax Act, 1961 which allows or authorizes the carry forward of such loss. Thus the assessee will not be allowed to carry forward such loss, irrespective of the date of filing ROI.

Answer 3

Since Mr. Vineet has income only under the heads “Salaries”, “Income from house property” and “Income from other sources”, he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force.

Therefore, the due date of filing return for A.Y.2024-25 under section 139(1), in his case, is 31st July, 2024. Since Mr. Vineet had submitted his return only on 12.9.2024, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised. Thus, a belated return under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(4), on 21.11.24 to claim deduction under section 80TTA, since the time limit has not elapsed and it is done before 31.12.24 (3m prior to end of A.Y. 24-25) & assessment has yet not completed.

ADVANCED TAX & INTEREST

ADVANCE TAX

Sec. 207 - Liability of Payment of advance tax

- (1) Under the provisions of advance tax, tax is payable in advance during the previous year itself in which the current income is earned, although it will be assessed and chargeable to tax in the assessment year.
- (2) Advance tax is not payable by a resident individual of age 60 years or more in the relevant P.Y. who does not have any income under the head "Profits and Gains of Business or Profession."

Sec. 208 - Advance tax is payable in a previous year / financial year as per the provisions if the amount of advance tax is ₹ 10,000/- or more.

Sec. 209 - Calculation of advance tax by assessee

- Step 1 : Estimate the entire current income inclusive of long - term short - term capital gains, casual winnings and consider agriculture income as well for rate of tax purposes.
- Step 2 : Compute the basic tax on above
- Step 3 : Add surcharge if applicable and education cess
- Step 4 : Give relief u/s. 89 if applicable
- Step 5 : Deduct the TDS / TCS **actually deducted/collected.**
- Step 6 : The balance amount if it is ₹ 10,000 or more is the advance tax payable as per section 211.

In other words, if tax was deductible but not deducted by the payer, the receiver shall have to pay advance tax towards such income.

Sec. 210(1) - Every person who is liable to pay advance tax, shall do so whether or not he was subjected to regular assessment earlier.

Sec. 210(2) - He may adjust the remaining advance tax instalments by way of increase or reduction in them, should the need arise.

Sec. 211 : Instalment of advance tax and due dates

Individual %	On or Before	For ALL assesses cumulative %
15%	June 15 of the previous year.	Not less than 15% of advance tax payable
30%	September 15 of previous year.	Not less than 45% of advance tax payable
30%	December 15 of previous year.	Not less than 75% of advance tax payable.
25%	March 15 of the previous year.	Not less than 100% of advance tax payable.
100 %		

For an eligible assessee covered by Section 44AD, 44ADA [Presumptive Taxation], the above installments shall not apply and the assessee can pay the whole amount of advance tax on or before 15th March of the previous year.

Any amount paid after 15th of March but before of 31st March of the relevant previous year shall be considered as advance tax payment only, but shall be liable to interest.

If on the last day for payment of any instalment of advance tax the bank is closed, the assessee should make the payment on the immediately following working day and the interest leviable u/s. 234B & 234C will not be charged.

INTEREST

Sec. 234A - Interest when return is furnished after the due date.

*	Rate of Interest :	1% per month and part of a month is considered one full month.
*	Period of Interest :	Commencing from the date immediately following the due date of filing the return till : <ul style="list-style-type: none"> ➤ the date of actually filing the return ➤ date of completion of assessment u/s. 144 (best judgement assessment), if no return is filed.
*	Amount on which interest shall be calculated :	Assessed tax (-) Advance tax (-) TDS / TCS (-) relief u/s 89 but not tax paid u/s. 140A, i.e. after 31st of March For calculating interest element paid u/s. 234A in the total tax + interest payment u/s. 140A, returned tax shall be considered.

Rule 119A: Any fraction beyond the nearest multiple of ₹ 100/- will be ignored in the calculation of interest payable or receivable by the assessee.

Sec. 234B - Interest on default of payment of advance - tax payable.

- Either no advance tax is paid or paid less than 90% of assessed tax.
- If no advance tax is paid then interest is payable on assessed tax @ 1% per month for every month or part of a month which is considered as a full month, starting from the 1st day of April of the assessment year till the date of determination of income under summary assessment - u/s. 143(1) or regular assessment - u/s. 143(3).
- If advance tax is paid then as above except that assessed tax will be reduced by the advance tax so paid.
- Rule 119A to be considered.

Assessed tax (-) TDS / TCS (-) relief u/s 89

Sec. 234C - Interest on deferment of advance tax

- When assessee does not pay advance tax or underestimates instalments of advance tax.

For all assessees except assessee covered by Sec 44AD:

$$1. \left\{ 15\% \left[\frac{\text{Returned tax - TDS / TCS (-)}}{\text{relief u/s 89}} \right] - \text{Advance tax paid till 15th June} \right\} \times \frac{1}{100} \times 3 \text{ months}$$

$$2. \left\{ 45\% \left[\frac{\text{Returned tax - TDS / TCS (-)}}{\text{relief u/s 89 (+)}} \right] - \text{Advance tax paid till 15th Sept.} \right\} \times \frac{1}{100} \times 3 \text{ months}$$

rate of interest

$$3. \left\{ 75\% \left[\frac{\text{Returned tax - TDS / TCS (-)}}{\text{relief u/s 89 (+)}} \right] - \text{Advance tax paid till 15th Dec} \right\} \times \frac{1}{100} \times 3 \text{ months}$$

$$4. \left\{ 100\% \left[\frac{\text{Returned tax - TDS / TCS (-)}}{\text{relief u/s 89}} \right] - \text{Advance tax paid till 15th March} \right\} \times \frac{1}{100} \times 1 \text{ month}$$

→ For an assessee covered by section 44AD, interest will be calculated only for the instalment of March as follows:

$$\left\{ 100\% \left[\text{Returned tax - TDS / TCS} \right] - \text{Advance tax paid till 15th March} \right\} \times \frac{1}{100} \times 1 \text{ month}$$

→ Rule 119A to be considered.

→ Interest provisions are not attracted if the shortfall in the payment of advance tax is due to underestimation or non - estimation of capital gains or casual winnings & Dividend income (except dividend taxable u/s 2(22)(e) on which interest u/s 234C will be applicable), and the assessee has paid the entire tax payable in respect of such income, as part of remaining instalments of advance tax which are due or if no instalment is due, then such tax is paid before the end of the financial year.

→ Interest provisions shall also not be attracted if income arises under the head "Business or Profession" for the FIRST TIME.

→ If the advance tax paid by the assessee on or before 15th June is atleast 12% of the returned tax or if the advance tax paid on or before 15th September is atleast 36% of returned tax, then no interest shall be charged on the shortfall on those dates.

CLASSWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Mr. S during the financial year 2023-24 aged 48 years pays the following instalments of advance tax:

15.6.2023	8,000
15.9.2023	5,000
15.12.2023	14,000
16.3.2024	12,300

The regular assessment for the A.Y. 2024-25 is completed on 10.3.2025 and income determined by the Assessing Officer without any addition is ₹ 8,00,000. He is also entitled to tax credit of ₹ 9,400 on account of TDS.

Find out the amount of interest payable under section 234B & 234C.

Question 2

Compute the advance tax payable by Ms. Shraddha from the following estimated income submitted for the financial year 2023-2024.

Income from Salary (computed) before T.D.S.	5,80,000
Rent from house property (per annum)	3,60,000
Interest on government securities	25,000
Interest on saving bank deposit	3,000
Receipt from Lottery (net) (TDS @ 30%)	14,000
Agriculture Income	90,000
Contribution to PPF	60,000
Tax Deducted at source by the employer on salary	37,080

TAX DEDUCTION & COLLECTION AT SOURCE

Introduction

- ✓ Deduction & Collection of Tax at Source and Advance Payment of Tax - [Section 190]:
- (a) The total income of an assessee for any previous year is taxable in the relevant assessment year. For example, the total income for the P.Y. 2022-23 is taxable in the A.Y. 2023-24. However, the amount of income tax is recovered from the assessee in the P.Y. 2022-23 itself by way of:
- tax deduction at source (TDS);
 - tax collection at source (TCS); and
 - advance tax
- (b) Another mode of recovery of tax is from assessee's employer through tax paid by him u/s 192(1A) on the non-monetary perquisites provided to the assessee.

Note:

Refer the provisions of section 10(10CC) & 40(a)(v) under the head 'Salaries' & 'PGBP'.

- (c) Above taxes are deducted (adjusted) from the gross tax liability computed by the assessee on the total income at the time of filing of return of income during the assessment year.

On adjustment of such taxes and allowing relief under section 89 out of the gross tax liability, if the balance amount is positive (+ve), then, the assessee would be liable to pay the balance tax as self-assessment tax u/s 140A.

On the other hand, on adjustment of such taxes and allowing relief under section 89 out of the gross tax liability, if the balance amount is negative (-ve), then, the assessee would be eligible to get the refund of excess taxes paid during the previous year.

- ✓ **Direct Payment of Taxes - [Section 191]:**

- (a) Section 191 provides that in the following cases, tax is payable by the assessee directly:

- (i) in the case of an income in respect of which tax is not required to be deducted at source; and
 - (ii) in the case of an income in respect of which tax is liable to be deducted but is not actually deducted by the payer.
- (b) In view of the provisions of section 191, the proceedings for recovery of tax necessarily had to be taken against the assessee whose tax was liable to be deducted, but not deducted. In order to overcome this difficulty, the explanation to section 191 provides that if any person, including the principal officer of the company:
- (i) who is required to deduct tax at source; or
 - (ii) an employer paying tax on non-monetary perquisites u/s 192(1A); does not deduct the whole or part of the tax, or after deducting fails to pay such tax deducted, then, such person shall be deemed to be an assessee-in-default. However, if the assessee himself has paid the tax, this provision shall not apply.

Note:

Regular assessment of income is to be made during the assessment year, but the tax on such income is payable by the assessee in the previous year itself in the form of TDS/TCS & advance tax. This is to avoid the cases of tax evasion. Under the scheme of TDS, the persons responsible for making payment of certain specified incomes are responsible to deduct tax at source and deposit the same to the government's treasury within the stipulated time. The recipient of income though gets only the net amount (after deduction of tax at source) is liable to be taxed on the gross amount and the amount deducted at source is adjusted against his final tax liability. The details of the scheme of tax deduction & collection at source are discussed under this chapter. Further, in respect of the income which is not liable for tax deduction or was liable for tax deduction but not tax was deducted thereon, the assessee himself would be liable to be taxed in his assessment.

Provisions of Tax Deduction at Source [TDS]

TDS from Salary - [Section 192]

Payer	Any employer .
Payee	Any employee (resident or non-resident).
Payment Covered	Taxable salary of the employee (including perquisites).

Time of Tax Deduction	At the time of payment .
Rate of TDS	Tax is to be deducted @ normal rates applicable to the estimated total income of the employee for the A.Y. 2022-23. Note: If the employee does not have PAN , then, tax is deductible @ normal rates or 20% (whichever is higher).
No TDS u/s 192	TDS u/s 192 is not deductible if the estimated salary income (including the value of perquisites) of the employee does not exceed the basic exemption limit applicable to him.
All the incomes of the employee to be considered	Based on the duly verified declaration statement furnished by the employee, the employer shall also consider the income from all the sources under all the heads . However, the employer shall not consider loss from any source (other than the loss from house property) declared by the employee in such declaration statement.
Evidence or Proof of Prescribed Claims	The employer shall, for the purposes of estimating income of the assessee or computing tax deductible u/s 192(1), obtain from the employee, the evidence or proof or particulars of prescribed claims (including claim for set-off of loss) under the provisions of the Income Tax Act, 1961 in such form and manner as may be prescribed. For the following prescribed claims, following evidences or proofs or particulars are required to be obtained: (a) HRA - Name, Rent paid, Address & PAN of the landlord. (b) LTC/LTA - Evidence of expenditure on journey. (c) Deduction of interest under the head 'House Property' - Name, Address & PAN of the lender, interest paid/payable. (d) Deductions under chapter VI-A - Evidence of expenditure or payments or investments.
Income from Previous Employer	Income from previous employer may also be considered to determine the amount of TDS to be deducted out of the salary of the employee.

<p>Tax on the Non-Monetary Perquisites</p>	<p>U/s 192(1A), the employer may deposit from his own pocket tax on the non-monetary perquisites of the employees.</p> <p>Such tax will be determined on the basis of average rate of income tax computed on the basis of rates in force for the financial year on the income chargeable under the head 'Salaries' including non-monetary perquisites.</p> <p>Such tax is exempt income in hands of employee u/s 10(10CC) and is disallowable expenditure to employer as per section 40(a)(v).</p>
<p>Other Points</p>	<p>(a) The employer may increase or decrease the TDS for adjusting any excess or deficiency arising out of any previous deduction or failure to deduct during the financial year.</p> <p>(b) As per the provisions of section 197, the employee can make an application in Form No. 13 to the A.O. and get a certificate of lower tax deduction or no tax deduction.</p>

TDS on Premature Withdrawal from Employees' Provident Fund - [Section 192A]

<p>Payer</p>	<p>Trustees of Employees Provident Fund Scheme, 1952 framed under the Employees' Provident Fund & Miscellaneous Provisions Act, 1952; or any person authorised under the scheme to make payment of accumulated balance due to the employees.</p>
<p>Payee</p>	<p>Any person (resident or non-resident).</p>
<p>Payment Covered</p>	<p>Taxable premature withdrawal from RPF A/c.</p> <p>Note:</p> <p>(a) Under the EPF & MP Act, 1952, certain specified employers are required to comply with the Employees Provident Fund Scheme, 1952. However, these employers are also permitted to establish and manage their own private provident fund scheme subject to fulfillment of certain conditions.</p> <p>(b) The provident funds established under a scheme framed under EPF & MP Act, 1952 or provident fund exempted u/s 17 of the said Act and recognised under the Income Tax Act, 1961 are termed as Recognised Provident Fund (RPF) under the Income Tax Act, 1961.</p> <p>(c) Part A of the Fourth Schedule to the Income Tax Act, 1961 contains the provisions relating to RPFs.</p>

	<ul style="list-style-type: none"> - Under the existing provisions of Rule 8 of Part A of the Fourth Schedule, the withdrawal of accumulated balance by an employee from the RPF is exempt from taxation. - For the purpose of discouraging the premature withdrawals and promoting long-term savings, if the employee makes withdrawal before continuous service of five years (other than the cases of termination due to ill health, contraction or discontinuance of business, cessation of employment etc.) and does not opt for transfer of accumulated balance to new employer, the withdrawal would be subject to tax. - Rule 9 of Part A of the Fourth Schedule provides the manner of computing the tax liability of the employee in respect of such premature withdrawal. - In order to ensure collection of tax in respect of such premature withdrawals, Rule 10 of Part A of the Fourth Schedule casts responsibility on the trustees of the RPF to deduct tax as computed in Rule 9 from such premature withdrawal at the time of payment.
Time of Tax Deduction	At the time of payment .
Rate of TDS	Tax is to be deducted @ 10% . Note: If the PAN of the recipient is not available, tax is deductible @ 20% .
Maximum Amount which can be paid without TDS	TDS shall not be deducted where the taxable premature withdrawal is less than Rs. 50,000 .
Other Points	Tax shall not be deducted at source if declaration is given u/s 197A. However, it is not possible to get lower or no TDS certificate u/s 197.

TDS on Interest on Securities - [Section 193]

Payer	Any person.
Payee	Any person (resident).
Payment Covered	Interest on securities.

Time of Deduction	At the time of credit or payment (whichever is earlier) .
Rate of TDS	Tax is to be deducted @ 10% .
No TDS u/s 193	<p>TDS shall not be deducted in case of interest paid or payable:</p> <p>(a) on 4¼% National Defence Bonds 1972, where the bonds are held by an individual (not being a non-resident).</p> <p>(b) on 4¼% National Defence Loan, 1968 or 4¾% National Defence Loan, 1972, where the interest is payable to an individual.</p> <p>(c) on National Development Bonds.</p> <p>(d) on 7 years National Savings Certificates (IV Issue).</p> <p>(e) on debentures issued by any institution or authority or any public sector company or any co-operative society (including a co-operative land mortgage bank or a co-operative land development bank), as notified by the Central Government.</p> <p>(f) on 6½% Gold Bonds, 1977 or 7% Gold Bonds, 1980, where the bonds are held by an individual (other than a non-resident), provided that the holders of the bonds make a written declaration that the total nominal value of the bonds held by him or on his behalf did not in either case exceed Rs. 10,000 at any time during the period to which the interest relates.</p> <p>(g) on any security of the Central Government or a State Government.</p> <p>Note: However, tax has to be deducted at source in respect of interest payable on 8% Savings (Taxable) Bonds, 2003 or 7.75% Savings (Taxable) Bonds, 2018, only if such interest payable exceeds Rs. 10,000 during the financial year.</p> <p>(h) on any debentures (whether listed or not) issued by the company in which the public are substantially interested to a resident individual or HUF. However, the interest should be paid by the company by an account payee cheque; the amount of such interest or the aggregate thereof paid or likely to be paid during the financial year by the company to such resident individual or HUF should not exceed Rs. 5,000.</p>

	(i) on securities to LIC, GIC, subsidiaries of GIC or any other insurer, provided that, the securities are owned by them or they have full beneficial interest in such securities.
	(j) on any security issued by a company, where such security is in dematerialised form and is listed on a recognised stock exchange in India.

TDS on dividend - [Section 194]

Payer	Domestic company
Payee	Resident shareholder
Payment Covered	Dividend (Incl. sec. 2(22) (Incl. Pref. shares div.)
Time of Deduction	Payment distribution w.e. earlier
Rate of TDS	10%
Maximum amount for which no TDS	5,000 (In F.Y.)(If paid in cash – no limit)
Other point	No TDS is paid to LIC, GIC, other insurer, business trust or any other person notified in the Official Gazette in this behalf.

TDS on Interest other than Interest on Securities - [Section 194A]

Payer	Any person (other than individuals or HUFs whose turnover or total sales or gross receipts from the business or profession carried on by him/it does not exceed Rs. 1 crore and Rs. 50 lakhs, respectively, u/s 44AB during the immediately preceding financial year).
Payee	Any person (resident).
Payment Covered	Interest other than interest on securities.
Time of Deduction	At the time of credit or payment (whichever is earlier).
Rate of TDS	Tax is to be deducted @ 10%.

No TDS u/s
194A

No deduction of tax u/s 194A shall be made in the following cases:

(a) Where the **aggregate** of the amounts of interest credited or paid or likely to be credited or paid during the financial year to the payee, **does not exceed Rs. 5,000.**

Note:

(1) This **limit is Rs. 40,000** in respect of interest on:

- (i) time deposits with a banking company;
- (ii) time deposits with a co-operative society engaged in banking business; and
- (iii) deposits with post office under notified schemes.

(2) **In respect of point no. (1) above, the limit is enhanced to Rs. 50,000, in case of a payee, being a resident senior citizen - (w.e.f. 01.04.2019).**

(3) In the case of interest credited or paid in respect of:

- (i) time deposits with a banking company;
- (ii) time deposits with a co-operative society carrying on the business of banking; and
- (iii) deposits with housing finance companies, provided:
 - they are public companies formed & registered in India; and
 - their main object is to carry on the business of providing long-term finance for construction or purchase of residential houses in India;

the threshold limit for deduction of tax at source (i.e. Rs. 5,000 or **Rs. 40,000** or Rs. 50,000, as the case may be) shall be computed with reference to the interest credited or paid **by a branch of such banking company or co-operative society or the public company.**

However, the above threshold limit shall be reckoned with reference to the **total interest credited or paid by the banking company or the co-operative society or the public company, as the case may be, (and not with reference to each branch), where such banking company or co-operative society or public company has adopted core banking solutions (CBS).**

Note:

- The term 'time deposit' means fixed deposits & also recurring deposits repayable after fixed period, therefore interest on fixed deposits & recurring deposits repayable on maturity shall attract TDS provisions subject to above prescribed limits.
- Interest on savings deposits with banks or a co-operative bank do not attract any TDS.

(b) Where the interest is credited or paid by a co-operative society **(other than a co-operative bank)** to its member(s) or any other co-operative society. But if the above co-operative society's total sales receipts/ turnover exceeds 50cr. during immediately preceding P.Y., then it is liable to deduct T.D.S.

Note:

Therefore, interest credited or paid by a co-operative bank to its member or a non-member or any other co-operative society shall attract TDS provisions.

(c) Where the interest is credited or paid in respect of **deposits with a primary agricultural credit society or a primary credit society or co-operative land mortgage bank or a co-operative land development bank.**

(d) Where the interest is credited or paid **by a firm to its partner.**

(e) Where the interest is credited or paid in respect of **deposits under any scheme framed by the Central Government and notified by it in this behalf.**

(f) Where interest is credited or paid **by the Central Government under different provisions of direct taxes.**

Note:

However, tax shall be deducted u/s 195 where such interest is paid to a non-resident.

(g) Where the interest is credited or paid **'to':**

- any **banking company** or any **co-operative bank (including a co-operative land mortgage bank);** or
- financial corporations established under any Central, State or Provincial Act (i.e. any **public financial institution**); or

	<ul style="list-style-type: none"> - Life Insurance Corporation of India (LIC) or any insurance company or any co-operative society carrying on insurance business; or - Unit Trust of India (UTI); or - any notified institution. <p>Infrastructure capital company or infrastructure capital fund or infrastructure debt fund.</p> <p>Note:</p> <p>Notified Institutions:</p> <p>India Infrastructure Finance Limited, Rural Electrification Corporation Limited & National Skill Development Fund & Housing and Urban Development Corporation Ltd. (HUDCO) have been notified in this regard.</p> <p>(h) Where the income is 'credited' by way of interest on the compensation awarded by the Motor Accidents Claims Tribunal.</p> <p>(i) Where the income is 'paid' by way of interest on the compensation awarded by the Motor Accidents Claims Tribunal and the amount of such income or, as the case may be, the aggregate of the amounts of such income paid during the financial year does not exceed Rs. 50,000.</p> <p>(j) Where the income is paid or payable by an infrastructure capital company or infrastructure capital fund or a public sector company or scheduled bank in relation to a zero-coupon bond issued on or after 01-06-2005.</p>
<p>Circular No. 3/2010, Dated 2nd March, 2010</p>	<p>No constructive credit to the depositor's account takes place while calculating interest on time deposits on daily or monthly basis in the CBS software, tax need not be deducted at source on such provisioning of interest by banks for the purposes of macro monitoring only.</p> <p>In such cases, tax shall be deducted at source on accrual of interest at the end of financial year or at periodic intervals as per practice of the bank.</p>
<p>Other Points</p>	<p>(i) The payer may, at the time of making any deduction, increase or reduce the amount to be deducted for the purpose of adjusting any excess or deficiency arising out of previous deduction or failure to deduct during the F.Y.</p> <p>(ii) The Central Government may, by notification provide the deduction to be made or not or at a lower rate.</p>

TDS on Winnings from Lottery, Crossword Puzzles, Card Games etc. - [Section 194B]

Payer	Any Person.
Payee	Any Person.
Payment Covered	Winnings from Lottery/Crossword Puzzles/Card Games/Other Games/ Gambling and Betting.
Time of Deduction	At the time of Payment .
Maximum Amount which can be paid without TDS	If the amount of winnings is \leq Rs. 10,000 .
Rate of TDS	Tax is to be deducted @ 30% .
Other Points	<p><u>In a case where:</u></p> <p>(i) the winnings are wholly in kind; or</p> <p>(ii) partly in cash & partly in kind but the part in cash is not sufficient to meet the liability of deduction of tax in respect of whole of the winnings,</p> <p>then, the person responsible for paying shall, before releasing the amount of winnings, ensure that tax has been paid in respect of the winnings.</p> <p><u>Example:</u></p> <p>Mr. A wins a Honda City car on 10th October, 2022 (Value Rs. 10,00,000) in a lucky draw organised by Honda Company. Tax liability on the winnings in kind comes to Rs. 3,00,000 (i.e. 30% of Rs. 10,00,000) which may be recovered by Honda Company from Mr. A and the same can be deposited with the Government on account of tax deduction.</p>

TDS on Winnings from Horse Races - [Section 194BB]

Payer	Any Person.
Payee	Any Person.
Payment Covered	Winnings from Horse Races.
Time of Deduction	At the time of Payment .
Maximum Amount which can be paid without TDS	If the amount of winnings is \leq Rs. 10,000 .
Rate of TDS	Tax is to be deducted @ 30% .

TDS on Winnings from any "on line game" - [Section 194BBJ]

Payer	Any Person.
Payee	Any Person.
Payment Covered	Winnings from any "on line game"
Time of Deduction	At the time of Payment.
Rate of TDS	Tax is to be deducted @ 30%.

TDS on Payments made to Contractors or Sub-Contractors - [Section 194C]

Payer	<p>Any of the following persons:</p> <ul style="list-style-type: none"> (a) the Central Government or any State Government(s); (b) any local authority; (c) any corporation established under any Central, State or Provincial Act; (d) any company; (e) any co-operative society; (f) any authority constituted in India by or under any law, engaged either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages or for both; (g) any society registered under the Societies Registration Act; (h) any trust; (i) any university or an institution declared to be a university; (j) any Government of a foreign State or a foreign enterprise or any association or body established outside India; (k) any firm; (l) any individual or HUF or AOP or BOI (whose books of accounts are required to be audited u/s 44AB in the immediately preceding F.Y.)
Payee	Any Resident Contractor or Sub-Contractor.
Payment Covered	Consideration or Payment for any 'Work Contract'.
Time of Deduction	At the time of Credit or Payment (whichever is earlier).

<p>Maximum Amount which can be paid without TDS</p>	<ul style="list-style-type: none"> - Single Payment is \leq Rs. 30,000 - Aggregate of Payments during the F.Y. to a Single Person is \leq Rs. 1,00,000
<p>Rate of TDS</p>	<p>Tax to be deducted @:</p> <ul style="list-style-type: none"> - 1% : if the contractor or sub-contractor is an Individual or a HUF - 2% : if the contractor or sub-contractor is a person other than Individual or HUF
<p>Meaning of 'Work Contract'</p>	<p>Section 194C is applicable in respect of consideration for carrying out any works contract (including supply of labour for carrying out any work).</p> <p>For this purpose, contract shall also include sub-contract. Further, as per section 194C, the expression 'work' shall include:</p> <ol style="list-style-type: none"> (a) advertising; (b) broadcasting and telecasting including production of programmes for such broadcasting or telecasting; (c) carriage of goods or passengers by any mode of transport other than by railways; (d) catering; (e) manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer or its associate, being a person placed similarly in relation to such customer as per Sec. 40A(2). <p>However, the expression 'work' shall not include, manufacturing or supplying a product according to the requirement or specification of a customer by using raw material purchased from a person, other than such customer or associate of such customer, as such contract is a contract for sale.</p> <p>Note:</p> <p>Where there is manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer, tax shall be deducted on the invoice value excluding the value of material purchased from such customer if such value is mentioned separately in the invoice.</p> <p>Where the material component has not been separately mentioned in the invoice, tax shall be deducted on the whole of the invoice value.</p>

<p>No TDS u/s 194C in case of Transport Operators</p>	<p>No tax deduction shall be made from any sum credited or paid or likely to be credited or paid during the F.Y. to the account of a contractor during the course of business of plying, hiring or leasing goods carriages, where such contractor owns ≤ 10 goods carriages at any time during the F.Y. and furnishes a declaration to that effect along with his PAN, to the person paying or crediting such sum.</p> <p>Note: This exemption from TDS provisions is applicable only in respect of transport charges received for plying, hiring or leasing of goods carriage(s) owned by the transporter. Therefore, if a person receives payment in respect of plying, hiring or leasing of goods carriage(s) which are not owned by him, he shall not be entitled to claim exemption from TDS in respect of these payments.</p>
<p>No TDS u/s 194C in case of Contract for Personal Purpose</p>	<p>No TDS is required to be deducted by an individual or a HUF under a contract for personal purpose, even if he is subject to tax audit during the immediately preceding F.Y.</p>
<p>Other Points</p>	<p>(a) Contracts for rendering professional services by lawyers, physicians, surgeons, engineers, accountants, architects, consultants etc., cannot be regarded as contracts for carrying out any 'work' and, accordingly, no deduction of income-tax is to be made from payments relating to such contracts under this section. Separate provisions for fees for professional services have been made u/s 194J.</p> <p>(b) As per the provisions of section 197, the contractor or sub-contractor can make an application in Form 13 to the A.O. to get a certificate of lower tax deduction or no tax deduction.</p>

TDS on Insurance Commission - [Section 194D]

<p>Payer</p>	<p>Any Person.</p>
<p>Payee</p>	<p>Any Person (Resident).</p>
<p>Payment Covered</p>	<p>Insurance Commission.</p>

Time of Deduction	At the time of Credit or Payment (whichever is earlier) .
Maximum Amount which can be paid without TDS	If the aggregate amount of Insurance Commission for the financial year is \leq Rs. 15,000 .
Rate of TDS	Tax shall be deducted @ 5% both in the case of resident non-corporate assessees and domestic companies.
Other Points	As per the provisions of section 197, the recipient can make an application in Form 13 to the A.O. to get a certificate of lower tax deduction or no tax deduction.

TDS on payment in respect of Life Insurance Policy - [Section 194DA]

Payer	Any Person.
Payee	Any Person (Resident).
Payment Covered	Any payment pertaining to Life Insurance Policy including Bonus (if any) (whether at the time of maturity or otherwise).
Time of Deduction	At the time of Payment.
Maximum Amount which can be paid without TDS	If the aggregate amount of such payment during the F.Y. is < Rs. 1,00,000 .
Rate of TDS	<p>(Finance Act' 2019 Amendment):</p> <p>For ensuring a proper mechanism for reporting of transactions and collection of tax in respect of sum paid under life insurance policies which are not exempt u/s 10(10D), section 194DA provides for deduction of tax @ 1% on any sum paid to a resident under a life insurance policy, including the sum allocated by way of bonus, which are not exempt under section 10(10D).</p> <p>However, w.e.f. 01.09.2019, tax is to be deducted at source @ 5% on the amount of income comprised therein i.e. after deducting the amount of insurance premium paid by the resident assessee from the total sum received.</p>

No TDS u/s 194DA	Where the payment received is exempt u/s 10(10D) in the hands of the recipient.
Other Points	If the recipient submits Form No. 15G/15H u/s 197A, then, tax is not deductible.

Commission on sale of lottery tickets - [Section 194G]

Payer	Any Person.
Payee	Any Person.
Payment Covered	Commission etc. on the sale of lottery tickets.
Time of Deduction	At the time of Credit or Payment (whichever is earlier).
Maximum Amount which can be paid without TDS	If the amount of commission is \leq Rs. 15,000.
Rate of TDS	Tax is to be deducted @ 5%.

Commission or Brokerage - [Section 194H]

Payer	Any Person (not being an Individual or a HUF whose books of accounts are not required to be audited u/s 44AB in the immediately preceding FY.) i.e. inclusive of Individual or a HUF whose total sales, gross receipts or turnover from the business or profession carried by him exceed one crore rupees in case of business or fifty lakh rupees in case of profession during the financial year immediately preceding the financial year in which such commission or brokerage is credited or paid, shall be liable to deduct Income –tax under this section.
Payee	Any Person (Resident).
Payment Covered	Commission or Brokerage (not being Insurance Commission).
Time of Deduction	At the time of Credit or Payment (whichever is earlier).

Maximum Amount which can be paid without TDS	If the amount of commission or brokerage is \leq Rs. 15,000.
Rate of TDS	Tax is to be deducted @ 5%.
Meaning of 'Commission or Brokerage'	The term 'Commission or Brokerage' includes any payment received or receivable, directly or indirectly, by a person acting on behalf of another person for services rendered, or for any services in the course of buying or selling of goods, or in relation to any transaction relating to any asset, valuable article or thing, other than securities.
No TDS u/s 194H	<p>(a) Section 194H is not applicable to professional services. 'Professional Services' means services rendered by a person in the course of carrying on legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or such other profession as notified by the CBDT for the purpose of compulsory maintenance of books of account u/s 44AA.</p> <p>(b) Further, there would be no requirement to deduct tax at source on commission or brokerage payments by BSNL or MTNL to their public call office (PCO) franchisees.</p> <p>(c) Commission to employees and employee directors shall form part of salary income and is liable to TDS u/s 192 of the Income Tax Act, 1961 and not u/s 194H.</p> <p>(d) No TDS on brokerage & commission on securities.</p>
Circular No. 05/2016, dated 29-02-2016	Payments or discounts by television channels and publishing houses to advertising agencies or companies for booking or procuring of or canvassing for advertisements is not in the nature of commission and hence not liable for TDS u/s 194H.
Other Points	As per the provisions of section 197, the recipient can make an application in Form 13 to the A.O. to get a certificate of lower tax deduction or no tax deduction.

TDS on Rent - [Section 194-I]

Payer	Any Person (not being an Individual or a HUF whose books of accounts are not required to be audited u/s 44AB in the immediately preceding F.Y.). i.e. inclusive of Individual or a HUF whose total sales, gross receipts or turnover from the business or profession carried by him exceed one crore rupees in case of business or fifty lakh rupees in case of profession during the financial year immediately preceding the financial year in which such income by way of rent is credited or paid immediately preceding the financial year in which such commission or brokerage is credited or paid, shall be liable to deduct income –tax under this section.
Payee	Any Person (Resident).
Payment Covered	Rent of Land, Building, Plant, Machinery or Furniture.
Time of Deduction	At the time of Credit or Payment (whichever is earlier) .
Maximum Amount which can be paid without TDS	(Finance Act' 2019 Amendment): If the aggregate amount of rent during the F.Y. is \leq Rs. 2,40,000 .
Rate of TDS	Tax is to be deducted @: - 2% : on Rent of Plant or Machinery - 10% : on Rent of Land, Building or Furniture
Meaning of 'Rent'	Any payment, by whatever name called , under any lease, sublease, tenancy or any other agreement or arrangement for the use of (either separately or together) any land or building (including factory building) or land appurtenant to such building or machinery or plant or equipment or furniture or fittings whether or not any or all of the above assets are owned by the payee.
Circular No. 23/2017 dated 19-07-2017	Wherever in terms of the agreement or contract between the payer and the payee, the component of 'GST on services' comprised in the amount payable to a resident is indicated separately , tax shall be deducted at source on the amount paid or payable without including such 'GST on services' component. GST shall include IGST, CGST, SGST and UTGST.

Other Points	<p>(a) TDS should also be deducted on advance rent, warehousing charges & non-refundable deposits.</p> <p>(b) Where the share of each co-owner in the property is definite and ascertainable, limit of Rs. 2,40,000 shall apply to each co-owner separately.</p> <p>(c) As per the provisions of section 197, the recipient can make an application in Form 13 to the A.O. to get a certificate of lower tax deduction or no tax deduction.</p> <p>Further, the recipient can also give the declaration in Form 15G/15H u/s 197A for non-deduction of TDS on rent to be received by him.</p>
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Payment on transfer of Immovable Property other than Agricultural Land [Section 194-IA]

Payer	Transferee (Purchaser) of Immovable Property (other than person referred to in Section 194LA).
Payee	Transferor (Seller) - (Resident).
Payment Covered	Consideration for transfer of any immovable property (other than agricultural land).
Time of Deduction	At the time of Credit or Payment (whichever is earlier).
Maximum Amount which can be paid without TDS	If the amount of consideration for the immovable property and S. D. V. both is < Rs. 50,00,000.
Rate of TDS	Tax is to be deducted @ 1% of such sum Or the stamp duty value (higher) Note: In case the seller does not have PAN, then instead of 1%, TDS shall be deductible @ 20% - (Section 206AA).

<p>Other Points</p>	<p>(i) TDS is required to be deducted irrespective of the fact that immovable property is held as capital asset or stock-in trade by the buyer and seller.</p> <p>(ii) If the immovable property is purchased from a non-resident person for any value, no TDS is required to be deducted under this section. However, TDS shall be deducted u/s 195.</p> <p>(iii) It is not necessary that the immovable property should be situated in India. If any person is purchasing property outside India from a person resident in India, he is liable to deduct tax u/s 194-IA.</p> <p>(iv) Every person who is purchasing property of Rs. 50 lakhs or more would have to deduct tax u/s 194-IA @ 1% of the payments made to the seller.</p> <p>(v) In the case of property whose sale price is Rs. 50 lakhs or more and in the event part payment is being made for the purchase, then such TDS would be required to be deducted on every part payment of consideration and not at the time of final tranche of payment.</p> <p>(vi) If sellers jointly own a property and sells for a total consideration of Rs. 50 lakh or more, then section 194-IA is attracted even if each co-owner's consideration is less than Rs. 50 lakhs.</p> <p>(vii) In case section 194-IA is attracted then the purchaser is not required to obtain Tax Deduction Account Number (TAN) as the provisions of section 203A is not applicable in case of such assesseees.</p> <p>Sum deducted u/s 194-IA shall be paid to the credit of the Central Government by electronic remittance within a period of 30 days from the end of the month in which the deduction is made and shall be accompanied by a challan-cum-statement in Form No.26QB - [Rule 30].</p>
	<p>Every person responsible for deduction of tax u/s 194-IA shall also furnish a challan-cum-statement in Form No. 26QB electronically within 30 days from the end of the month in which the deduction is made - [Rule 31A].</p> <p>Every person responsible for deduction of tax under section 194-IA shall furnish the TDS certificate in Form No. 16B to the payee within 15 days from the due date for furnishing the challan-cum-statement in Form No.26QB, after generating and downloading the same from the web portal - [Rule 31].</p> <p>(viii) In case immovable property (other than agricultural land) is compulsorily acquired under any law, the provisions of section 194LA shall apply and provisions of section 194-IA shall not be applicable in such cases.</p>

Payment of Rent by certain Individuals or HUFs - [Section 194-IB]

Payer	Any Individual or HUF (other than those covered u/s 44AB). Payee
Payee	Any Person (Resident).
Payment Covered	Any payment, by whatever name called, under any lease, sublease, tenancy or any other agreement or arrangement for the use of any Land or Building or Both i.e. Rent for use of any Land or Building or Land & Building.
Time of Deduction	<p>At the time of:</p> <p>(a) credit of rent for the last month of the previous year; or</p> <p>(b) credit of rent for the last month of tenancy (if property is vacated during the previous year); or</p> <p>(c) payment of such rent</p> <p>(whichever is earlier)</p> <p>Note: The payer shall be liable to deduct tax only once in the previous year.</p>
Maximum Amount which can be paid without TDS	If the rent paid per month or part of the month is ≤ Rs. 50,000
Rate of TDS	<p>Tax is to be deducted @ 5% of the rent paid or credited during the FY.</p> <p>Note: If PAN of the recipient is not available, then instead of 5%, TDS shall be deductible @ 20% - (Section 206AA). However, in such case, the amount of TDS cannot exceed the rent payable for the last month of the previous year or last month of vacancy (as the case may be).</p>
Other Points	In case section 194-IB is attracted then the payer shall not be required to obtain Tax Deduction Account Number (TAN) as the provisions of section 203A is not applicable in case of such assesseees.

TDS on Fees for Professional/Technical Services or Royalty etc. - [Section 194J]

Payer	Any Person (not being an Individual or a HUF whose books of accounts are not required to be audited u/s 44AB in the immediately preceding FY. i.e. inclusive of Individual or a HUF whose total sales, gross receipts or turnover from the business or profession carried by him exceed one crore rupees in case of business or fifty lakh rupees in case of profession during the financial year immediately preceding the financial year in which such fees for professional services or technical services is credited or paid, shall be liable to deduct income tax under this section.
Payee	Any Person (Resident).

Payment Covered	<p>Payment of any sum by way of:</p> <p>(a) fees for professional services; or</p> <p>(b) fees for technical services; or</p> <p>(c) any remuneratio(n or fees or commission, by whatever name called, other than those on which tax is deductible u/s 192, to a director of a company; or</p> <p>(d) royalty, or</p> <p>(e) non-compete fees as referred u/s 28(va).</p>
Time of Deduction	At the time of Credit or Payment (whichever is earlier) .
Maximum Amount which can be paid without TDS	<p>If the aggregate of each of the above payments during the F.Y. is ≤ Rs. 30,000.</p> <p>Note:</p> <p>The above threshold limit is not applicable in case of any remuneration or fees or commission paid/credited to a director of a company i.e. TDS shall be deductible irrespective of the amount of such payment.</p>
Rate of TDS	<p>Tax is to be deducted @ 10%.</p> <p>Note:</p> <p>w.e.f., tax is to be deducted @ 2% if the payee is engaged in the business of operating call centres or fees for technical services or royalty where such royalty is in the nature of consideration for sale, distribution or exhibition of cinematography films.</p>
No TDS u/s 194J in case payment is made for Personal Purpose	No TDS is required to be deducted by an individual or a HUF if the payment is made for personal purpose, even if he is subject to tax audit during the immediately preceding F.Y.
Illustrative Cases of TDS u/s 194J	<p>(a) Advertising agency makes payment to models, artists, photographers etc.</p> <p>(b) Payment made to recruitment agency.</p> <p>(c) Payment of commission to external parties for procuring order for the company's products which involves professional / technical services only.</p> <p>(d) Payment made for maintenance contract in which technical services are required.</p> <p>(e) Commission received by an advertising agency from a media company.</p> <p>(f) Professional or technical services also cover a service of professional cameraman.</p>
Other Points	As per the provisions of section 197, the recipient can make an application in Form 13 to the A.O. to get a certificate of lower tax deduction or no tax deduction.

Section 194K

Payer	Any person.
Payee	Any Person (Resident).
Payment Covered	Any sum by way of : (a) Income from units of an approved mutual fund (whose income is exempt u/s 10(23D)); or (b) Income from the units of U.T.I
Time of Deduction	At the time of credit or payment (whichever is earlier)
Maximum Amount which can be paid without TDS	Where the amount of such income or as the case may be, the aggregate of the amounts of such income during the F.Y. is < 5,000.
Rate of TDS	Tax is to be deducted @ 10%
Other point	(i) No TDS if the income is of the nature of capital gains. (ii) Even if the income by mutual fund/U.T.I. is credited into “Suspense account” or by any other name by the payer, it shall be subject to T.D.S. provisions.

Payment made by an individual or a HUF for contract work or by way of fees for professional services or commission or brokerage - [Section 194M] – (Finance Act’ 2019 Amendment)

(1) Applicability and rate of TDS:

Section 194M, inserted w.e.f. 01.09.2019, provides for deduction of tax at source @ 5% by an individual or a HUF responsible for paying any sum during the financial year to any resident:

- (i) for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract; or
- (ii) by way of commission (not being insurance commission referred to in section 194D) or brokerage; or
- (iii) by way of fees for professional services.

Note:

Only individuals and HUFs (other than those who are required to deduct income-tax as per the provisions of section 194C or 194H or 194J) are required to deduct tax in respect of the above sums payable during the financial year to a resident.

(2) Time of tax deduction:

The tax should be deducted at the time of credit of such sum or at the time of payment of such sum, whichever is earlier.

(3) Threshold limit:

No tax is required to be deducted where such sum or, as the case may be, aggregate amount of such sums credited or paid to a resident during the financial year does not exceed Rs. 50,00,000.

(4) Non-applicability of TDS under section 194M:

An individual or a HUF is not liable to deduct tax at source under section 194M if:

- (i) they are required to deduct tax at source under section 194C for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract i.e. an individual or a HUF who is subject to tax audit under section 44AB in the immediately preceding financial year and such amount is not exclusively credited or paid for personal purposes of such individual or HUF.
- (ii) they are required to deduct tax at source under section 194H on commission (not being insurance commission referred to in section 194D) or brokerage i.e. an individual or a HUF whose total sales, gross receipts or turnover from the business or profession carried on by him exceed the monetary limits of Rs. 1 crore and Rs. 50 lakhs, respectively, specified under section 44AB during the immediately preceding financial year.
- (iii) they are required to deduct tax at source under section 194J on fees for professional services i.e. an individual or a HUF whose total sales, gross receipts or turnover from the business or profession carried on by him exceed the monetary limits of Rs. 1 crore and Rs. 50 lakhs, respectively, specified under section 44AB during the immediately preceding financial year and such amount is not exclusively credited or paid for personal purposes of such individual or HUF.

(5) No requirement to obtain TAN:

The provisions of section 203A containing the requirement of obtaining Tax deduction account number (TAN) shall not apply to the person required to deduct tax in accordance with the provisions of section 194M.

TDS on cash withdrawal - [Section 194N] - (Finance Act' 2019 Amendment)

(1) Applicability and rate of TDS:

Section 194N, inserted w.e.f. 01.09.2019, provides that every person, being:

- a banking company;
- a co-operative bank; or
- a post office

who is responsible for paying, in cash, any sum or aggregate of sums exceeding Rs. 1 crore during the previous year to any person from one or more accounts maintained by such recipient-person with it, shall deduct tax at source @ 2% of sum exceeding Rs. 1 crore.

If the person withdrawing cash is a cooperative society then limit of 1 crore will be replaced with 3 crore

(2) Time of deduction:

This deduction is to be made at the time of payment of such sum.

(3) If the recipient of cash has not filed the returns of income for all of the 3 assessment years relevant to the 3 previous years, for which the time limit of filing return of income u/s 139(1) has expired, immediately preceding the previous year in which the payment of the sum is made to him, then the T.D.S. will be as follows:

- Cash withdrawal > 20 lakhs but < 1 crore, 2% on excess beyond 20 lakhs.
- Cash withdrawal > 1 crore but 5% on excess beyond 1 crore.

(4) Non-applicability of TDS under section 194N:

Liability to deduct tax at source under section 194N shall not be applicable to any payment made to:

- the Government
- any banking company or co-operative bank or a post-office
- any business correspondent of a banking company or co-operative bank, in accordance with the RBI guidelines
- any white label ATM operator of a banking company or co-operative bank, in accordance with the authorisation issued by the RBI
- such other person or class of persons notified by the Central Government in consultation with the RBI.

Payment of Compensation or Enhanced Compensation on acquisition of certain Immovable Property other than Agricultural Land - [Section 194-LA]

Payer	Any Person.
Payee	Any Person (Resident).
Payment Covered	Any sum in the nature of compensation or the enhanced compensation or consideration or enhanced consideration, on account of compulsory acquisition, under any law for the time being in force, of any immovable property (other than agricultural land).
Time of Deduction	At the time of Credit or Payment (whichever is earlier).
Maximum Amount which can be paid without TDS	If the amount of payment or credit during the F.Y. is \leq Rs. 2,50,000.
Rate of TDS	Tax is to be deducted @ 10%.
Other Points	As per the provisions of section 197, the recipient can make an application in Form 13 to the A.O. to get a certificate of lower tax deduction or no tax deduction.

Section 194 – P

T.D.S by banking company notified by Central Govt.

Payer:

Specified bank

Payee:

Specified Senior Citizen who is resident and of age of 75 years or more at any time during the previous year.

T.D.S on:

Pension income received in such bank + interest in deposit with such bank.

(Payee does not have any other income)

Rate of T.D.S:

On income computed after giving chapter VI - A deductions & rebate u/s 87 A if applicable, tax on such income at applicable slab rates.

Other point:

Specified Senior Citizen has to furnish a declaration to specified bank with requisite details and verified in the prescribed manner.

Section 194-Q

Payer	:	Buyer whose total sales / gross receipts / turnover exceeds 10 Cr. for the earlier previous year.
Payment covered	:	When the purchase value (sale value of resident seller) exceeds fifty lakhs in the previous year.
Time of deduction	:	At the time of: (a) Credit into the account of seller (b) At the time of payment thereof (whichever is earlier)
Maximum amount which can be paid without TDS	:	Upto ₹ 50 lakhs of purchase value in the previous year.
Rate of TDS	:	@ 0.1% on purchase value exceeding 50 lakhs during the previous year. If PAN of the seller is not provided to buyer, then TDS shall be @ 5%.
Other points	:	TDS shall not apply to: (i) A transaction on which already TDS is deductible under the Act. (ii) A transaction on which TCS provisions u/s 206C are applicable.

Section 194-R

Deduction of T.D.S on benefit of perquisite in respect of business or profession.

- **Payer** - Individual/H.U.F only if last year turnover > 1 CR of business or > 50L of profession & any other person (including a principal officer of a company).
- **Payee** - Any Person (Resident).
- **T.D.S towards** - Any benefit/perquisite in monetary or non-monetary nature which is extended to a person carrying out business or profession.
- **Payment/benefit covered**- Aggregate value of benefit/perquisite during the previous year.
- **Maximum amount of benefit/perquisite which is without T.D.S** - Less then or equal to 20,000.

→ **Rate of T.D.S** - 10%

→ **Remark** : This section is introduced to ensure that the recipient of benefit/ perquisite reflects it u/s 28 i.e. business / profession income.

Other Provisions

Income Payable Net of Tax - [Section 195A]

- (1) Where, under an agreement or other arrangement, the tax chargeable on any income referred to in the foregoing provisions of this Chapter is to be borne by the person by whom the income is payable, then, for the purposes of deduction of tax under those provisions such income shall be increased to such amount as would, after deduction of tax thereon, be equal to the net amount payable under such agreement or arrangement.
- (2) However, no grossing up is required in the case of tax paid [u/s 192(1A)] by an employer on the non-monetary perquisites provided to the employee.

No TDS on Interest, Dividend or Other Sums payable to the Government, RBI or Certain Corporations - [Section 196]

- (1) No deduction of tax shall be made by any person from any sums payable to:
 - (i) the Government; or
 - (ii) the Reserve Bank of India; or
 - (iii) a corporation established by or under a Central Act, which is, under any law for the time being in force, exempt from income-tax on its income; or
 - (iv) a Mutual Fund specified u/s 10(23D).
- (2) This provision for non-deduction is applicable when such sum is payable to the above entities by way of:
 - (i) interest or dividend in respect of securities or shares, owned by the above entities or in which they have full beneficial interest; or
 - (ii) any other income accruing or arising to them.

Certificate for Lower deduction or No deduction of TDS - [Section 197]

- (1) This section applies where, in the case of any income of any person or sum payable to any person, income-tax is required to be deducted at the time of credit or payment, as the case may be at the rates in force as per the provisions of sections 192, 193, 194A, 194C, 194D, 194G, 194H, 194-I, 194J, 194LA and **194M**.

- (2) In such cases, the assessee can make an application in **Form No. 13** to the A.O. to get a certificate authorizing the payer to deduct tax at lower rate or deduct no tax as may be appropriate.
- (3) If the A.O. is satisfied that the total income of the recipient justifies the deduction of income-tax at lower rates or no deduction of income tax, as the case may be, he may give to the assessee such certificate, as may be appropriate.
- (4) Where the A.O. issues such a certificate, then the person responsible for paying the income shall deduct income tax at such lower rates specified in the certificate or deduct no tax, as the case may be, until such certificate is cancelled by the A.O.
- (5) The A.O. shall obtain prior approval of the Joint Commissioner/Additional Commissioner before issuing such certificate.
- (6) If the payee does not have PAN, he cannot make an application u/s 197 for obtaining such certificate.

Declaration for Lower Rate of TDS or Nil TDS - [Section 197A]

If declaration u/s 197A is submitted by the recipient to the payer, then no tax is to be deducted in few cases. The Provisions of section 197A are discussed as follows:

Self-declaration for non-deduction or lower deduction of TDS	Payee	Payment as specified u/s	Form No.
	All Assesseees (other than companies & firms) [Section 197A(1A)]	192A, 193, 194A, 194D, 194DA, 194-I	15G
	Resident Senior Citizens [Section 197A(1C)]	192A, 193, 194A, 194D, 194DA, 194-I	15H
Form 15G cannot be given [Section 197A(1B)]	Filing of declaration is not permissible where income or aggregate of incomes exceed the basic exemption limit of the payee.		
	Note: The above restriction u/s 197(1B) shall not apply in case of resident senior citizen.		

<p>Nil TDS in other specific cases</p>	<p>In the following specific situations, TDS need not be deducted:</p> <p>(1) Interest on deposits by/borrowings from a non-resident or RNOR, if interest is paid by an off-shore banking unit - [Section 197A(1D)].</p> <p>Note: Deposit/Borrowings should be made on or after 01-04-2005.</p> <p>(2) Any payment to any person for, or on behalf of, the NPS Trust - [Section 197A(1E)].</p> <p>(3) Specified payments to notified institutions/class of institutions etc. - [Section 197A(1F)].</p> <p>No deduction of tax shall be made, or deduction of tax shall be made at such lower rate, from such payment to such persons or class of persons, including institutions, association or body as may be notified by Central Govt. in the official gazette in this behalf.</p>
<p>Duties of Payer [Section 197A(2)]</p>	<p>A copy of the declarations u/s 197A(1), 197A(1A) and 197A(1C) shall be forwarded by the payer to the Chief Commissioner of Income Tax (CCIT) or Commissioner of Income Tax (CIT) on or before 7th of the month following the month in which such declaration is furnished by the payee to such payer.</p>
<p>Condition u/s 206AA</p>	<p>Quoting of PAN by the payee in such declarations is mandatory.</p>
<p>e-filing of Form 15G/15H</p>	<p>A payee can submit self-declaration either in paper format or electronically. Every payer shall be allotted a unique identification number (UIN) to all self-declarations that shall be furnished by in quarterly TDS statements.</p> <p>No requirement of submitting physical copy of Form 15G/15H by the payer. The payer shall retain Form 15G/15H for 7 years.</p>

TDS is Income Received - [Section 198]

- (1) All sums deducted in accordance with the foregoing provisions shall, for the purpose of computing the income of an assessee, be deemed to be income received.
- (2) However, the tax paid by an employer u/s 192(1A) and u/s 194N, shall not be deemed to be income received by the assessee.

Credit for TDS - [Section 199]

- (1) Credit for tax deducted at source and paid to the Central Government, shall be given to the deductee for the assessment year for which such income is assessable.

(2) Where tax has been deducted at source and paid to the Central Government and income is assessable over a number of years, credit for tax deducted at source shall be allowed across those years in the same proportion in which the income is assessable to tax.

(3) Rule 37BA(1) provides that credit for tax deducted at source and paid to the Central Government shall be given to the person to whom the payment has been made or credit has been given (i.e. the deductee) on the basis of information relating to deduction of tax furnished by the deductor to the income-tax authority or the person authorized by such authority.

Rule 37BA(2) provides that where under any provisions of the Income Tax Act, 1961, the whole or any part of the income on which tax has been deducted at source is assessable in the hands of a person other than the deductee, credit for the whole or any part of the tax deducted at source, as the case may be, shall be given to the other person and not to the deductee.

However, the deductee should file a declaration with the deductor and the deductor should report the tax deduction in the name of the other person in the information relating to deduction of tax referred to in Rule 37BA(1).

Time limit for Deposit of TDS to the Government Treasury – [Section 200]

(1) The persons responsible for deducting the tax at source should deposit the sum so deducted to the credit of the Central Government within the prescribed time.

(2) Further, an employer paying tax on non-monetary perquisites provided to employees in accordance with section 192(1A), should deposit within the prescribed time, the tax to the credit of the Central Government or as the Board directs.

(3) **Prescribed time and mode of deposit of TDS to the Government Account:**

Different Situations	Time of Deposit of TDS to the Government Treasury
Tax is deducted by an office of the Government and tax is paid without production of income tax payment challan	On the same day on which tax is deducted
Tax is deducted by an office of the Government and tax is accompanied by a challan - [Challan No. ITNS 281]	On or before 7 days from the end of the month in which tax is deducted

Tax is deducted by any person (not being office of the Government) - [Challan No. ITNS 281]	Income paid or credited in March: Tax should be deposited by 30th April Income paid or credited before 1st March: Tax should be deposited within 7 days from the end of the month in which such tax is deducted	
Tax is deducted by any person (not being office of the Government) and the A.O. with prior approval of the Joint Commissioner has permitted quarterly deposit of TDS u/s 192, 194A 194D & 194H - [Challan No. ITNS 281]	For the quarter ending: 30/06 30/09 30/12 31/03	Tax to be deposited by: 07/07 07/10 07/01 30/04
Tax is deducted by a person u/s 194-IA - [Form 26QB]	Within 30 days from the last date of the month in which such tax was deducted	
Tax is deducted by a person u/s 194-IB - [Form 26QC]	Within 30 days from the last date of the month in which such tax was deducted	
Note: A claim of refund for TDS paid to the credit of Central Government shall be furnished by the deductor in Form No. 26B electronically under digital signature.		

Forms of Quarterly TDS Statements (TDS Returns)

Form No.	Nature of Specified Payment
24Q	TDS from Salary
27Q	TDS where the deductees are Non-Residents (other than a company), Foreign Company & RNOR
26QB	Tax Deduction u/s 194-IA
26QC	Tax Deduction u/s 194-IB
26Q	TDS in any other case

Note:

Quarterly return cannot be submitted before deposit of TDS, interest for late payment of TDS and late fee u/s 234E.

Due Dates for filing TDS Statements (TDS Returns)

For the quarter ending	Due Dates
30/06	31/07
30/09	31/10
31/12	31/01
31/03	31/05

Note:

Time limits specified above are not applicable in case of deduction of tax u/s 194-IA. In such cases, the challan for electronic deposit of TDS [Form 26QB] is itself taken as quarterly statement of TDS (no separate statement of TDS is to be submitted).

Mode of Furnishing Quarterly TDS Statements (TDS Returns)

The following persons shall submit quarterly TDS Statements (TDS Returns) electronically along with the verification statement in Form No. 27A:

- (1) When the deductor is an office of the Government.
 - (2) When the deductor is the principal officer of a company.
 - (3) When the deductor is a person who is required to get his accounts audited u/s 44AB in the immediately preceding F.Y.
 - (4) When the number of deductee's records in a statement for any quarter of the F.Y. is ≥ 20 .
- Except the cases as mentioned above, any other deductor can submit the quarterly TDS returns either in paper format or electronically.

Mode of uploading the TDS Statements (TDS Returns):

Option 1	Uploading quarterly returns with digital signature.
Option 2	Furnishing quarterly returns electronically along with verification of the statement in Form No. 27A.
Option 3	Furnishing quarterly returns electronically along with electronic verification of the statement in Form No. 27A.

Consequences of failure to deduct or pay TDS - [Section 201]**(1) Deemed assessee-in-default:**

Following persons shall be deemed to be assessee-in-default if they do not deduct the whole or any part of the tax or after deducting fails to pay the tax any person including the principal officer of a company:

- (i) who is required to deduct any sum in accordance with the provisions of the Income Tax Act, 1961; and
- (ii) being, an employer paying tax on non-monetary perquisites u/s 192(1A).

(2) Non-applicability of deeming provision:

Any person (including the principal officer of the company) who fails to deduct the whole or any part of the tax on the amount credited or payment made to a resident payee shall not be deemed to be an assessee-in-default in respect of such tax if

such resident payee:

- (i) has furnished his return of income u/s 139;
- (ii) has taken into account such sum for computing income in such return of income; and
- (iii) has paid the tax due on the income declared by him in such return of income, and the payer furnishes a certificate to this effect from an accountant in such form as may be prescribed.

(3) Interest Liability:

- (i) A person deemed to be an assessee-in-default u/s 201(1), for failure to deduct tax or to pay the tax after deduction, is liable to pay simple interest @ 1% for every month or part of month on the amount of such tax from the date on which tax was deductible to the date on which such tax was actually deducted and simple interest @ 1½% for every month or part of month from the date on which tax was deducted to the date on which such tax is actually paid - **[Section 201(1A)]**.

Where an order is made by assessing officer in relation to the default, interest shall be paid accordingly.

- (ii) Such interest should be paid before furnishing the statements in accordance with section 200(3).
- (iii) Where the payer fails to deduct the whole or any part of the tax on the amount credited or payment made to a resident and is not deemed to be an assessee-in-default u/s 201(1) on account of payment of taxes by such resident payee, interest u/s 201(1A)(i) i.e. @1% p.m. or part of month, shall be payable by the payer from the date on which such tax was deductible to the date of furnishing of return of income by such resident payee. The date of deduction and payment of taxes by the payer shall be deemed to be the date on which return of income has been furnished by the resident payee.
- (iv) Where the tax has not been paid after it is deducted, the amount of the tax together with the amount of simple interest thereon shall be a charge upon all the assets of the person or the company, as the case may be.
- (v) Rigorous imprisonment for a term not less than 3 months but extending upto 7 years, with fine for failure to pay to the credit of the Central Govt. the T.D.S/ T.C.S.

TDS Certificates – [Section 203]

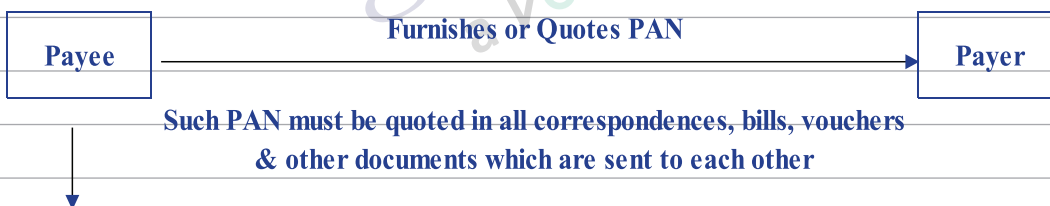
TDS certificate shall be issued to deductees (Form No. 16 for TDS from Salaries, Form No. 16A for TDS from Payments other than Salaries).

In the case of TDS from salaries, a statement of perquisites/profits in lieu of salary should be separately given to the employees in Form No. 12BA.

Time limit for issue of TDS certificates are given below:

Form No.	Periodicity	Due Date	
16 & 12BA	Annual	On or before 15th June of the F.Y. immediately following the F.Y. in which tax is deducted.	
16A	Quarterly	Within 15 days from the due date of furnishing quarterly TDS returns. In other words:	
		For the quarter ending	TDS/TCS certificates should be given on or before
		30/06	15/08
		30/09	15/11
		31/12	15/02
		31/03	15/06

Requirement to furnish PAN for TDS purposes - [Section 206AA]



Commits any of the following defaults :

- (1) Fails to Quote PAN
- (2) Quotes an Invalid PAN
- (3) Quotes a PAN which does not belong to him

It is a default on the part of the Payee



In such a case, the payer shall deduct tax @:

- Specified Rate = XX
 - Rate u/s 206AA = 20%
- ↑ **Whichever is higher**

Note :

- (i) In case of sec. 194-Q, Rate u/s 206AA = 5 %
- (ii) It shall also attract penalty u/s 272BB = Rs. 10,000.

Note:

- (1) Where the amount paid to the payee is upto the limit on which tax is not required to be deducted, then even if the payee does not furnish his PAN, section 206AA is not applicable.
- (2) Declaration u/s. 197A i.e. declaration in Form 15G/15H are not valid if the PAN is not quoted.
- (3) Certificate of lower/Nil deduction u/s 197 shall not be issued in case of a deductee not furnishing his PAN.

Section 206AB

* For T.D.S sections OTHER THAN sections 192, 192A, 194B, 194BB, 194-IA, 194-IB, 194M or 194N, if tax is to be deducted on the income of a “specified person”, it shall be deducted at the higher of the following rates:-

- (i) At twice the rate of T.D.S of Act.
or
- (ii) At twice the rate in force
or
- (iii) At the rate of 5%

Note:

1. “Specified person” (Excluding a non-resident) means a person who has not furnished the return of income for the assessment year relevant to the previous year immediately preceding the financial year in which tax is required to be deducted, for which the time limit for furnishing the return of income under rule section (1) of section 139 has expired and the aggregate of tax deducted at source and tax collected at source in his case is rupees fifty thousand and or more in the said previous year.
2. Section 206CCA is introduced on above lines for T.C.S and T.C.S rates will be applicable at higher of:-
 - (i) At twice of T.C.S rate specified in the Act
or
 - (ii) At the rate of 5%

Provisions of Tax Collection at Source [TCS]

- (1) As per the provisions of section 206C(1), sellers of certain goods are required to collect tax from the buyers at the specified rates.

The specified percentage for collection of tax at source is as follows:

Specified Items	TCS @
Alcoholic liquor for human consumption	1%
Tendu leaves	5%
Timber obtained under a forest lease or any mode other than forest lease	2.5%
Any other forest produce not being timber or tendu leaves	2.5%
Scrap	1%
Minerals being coal, lignite & iron ore	1%

- (2) Section 206C(1C) provides for collection of tax by every person who grants a lease or a licence or enters into a contract or otherwise transfers any right or interest in any:
- parking lot; or
 - toll plaza; or
 - a mine or a quarry
- to another person (other than a public sector company) for the use of such parking lot or toll plaza or mine or quarry for the purposes of business.
- The tax shall be collected as provided, from the licensee or lessee of any such licence, contract or lease of the specified nature @ 2%.
- (3) Section 206C(1F) provides that every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding Rs. 10 lakhs, shall collect tax from the buyer @ 1% of the sale consideration.

(4) Meaning of certain terms - [Explanation to section 206C]:

Buyer	<p>For Section 206C(1) & 206C(1C):</p> <p>A person who obtains in any sale, by way of auction, tender, or any other mode, goods of the nature specified in the above table or the right to receive any such goods but does not include:</p> <ol style="list-style-type: none"> a public sector company, the Central Government, a State Government, and an embassy, a high commission, legation, commission, consulate and the trade representation, of a foreign State and a club; or a buyer in the retail sale of such goods purchased by him for personal consumption
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	<p>For Section 206C(1F):</p> <p>A person who obtains in any sale, goods of the nature specified therein, but does not include:</p> <p>(a) the Central Government, a State Government and an embassy, a High Commission, legation, commission, consulate and the trade representation of a foreign State; or</p> <p>(b) a local authority; or</p> <p>(c) a public sector company which is engaged in the business of carrying passengers</p>
Seller	<p>(a) The Central Government;</p> <p>(b) a State Government; or</p> <p>(c) any local authority; or</p> <p>(d) corporation; or</p> <p>(e) authority established by or under a Central, State or Provincial Act; or</p> <p>(f) any company; or</p> <p>(g) firm; or</p> <p>(h) co-operative society</p>
	<p>Seller also includes an Individual or a HUF whose books of accounts are required to be audited u/s 44AB during the F.Y. immediately preceding the F.Y. in which the goods are sold.</p>
Scrap	<p>Waste and scrap from the manufacture or mechanical working of materials which is definitely not usable as such because of breakage, cutting up, wear & other reasons.</p>

(5) CBDT Clarification relating to certain issues with respect to section 206C(1F):

The amendments in section 206C have given rise to certain issues relating to the scope and applicability of the provisions.

Accordingly, the CBDT has, vide Circular No. 22/2016 dated 08-06-2016 & Circular No. 23/2016 dated 24-06-2016, clarified the following issues in 'Question & Answer (Q&A)' format.

Question 1:

Whether TCS @ 1% is on sale of motor vehicle at retail level or also on sale of motor vehicles by manufacturers to dealers/distributors?

Answer 1:

To bring high value transactions within the tax net, section 206C has been amended to provide that the seller shall collect the tax @ 1% from the purchaser on sale of motor vehicle of the value exceeding Rs. 10 lakhs. This is brought to cover all transactions of retail sales and accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.

Question 2:

Whether TCS @ 1% on sale of motor vehicle is applicable only to luxury cars?

Answer 2:

No, as per section 206C(1F), the seller shall collect tax @ 1% from the purchaser on sale of any motor vehicle of the value exceeding Rs. 10 lakhs. Full amount @ 1% e.g. say sale of 15 lakhs, then on entire 15 lakhs TCS.

Question 3:

Whether TCS @ 1% is applicable in the case of sale to Government Departments, Embassies, Consulates and United Nation Institutions, of motor vehicle or any other goods or provision of services?

Answer 3:

Government, institutions notified under United Nations (Privileges and Immunities) Act 1947, and Embassies, Consulates, High Commission, Legation, Commission and trade representation of a foreign State shall not be liable to levy of TCS @ 1% u/s 206C(1F).

Question 4:

Whether TCS is applicable on each sale of motor vehicle or on aggregate value of sale during the year?

Answer 4:

Tax is to be collected at source @ 1% on sale consideration of a motor vehicle exceeding Rs. 10 lakhs. It is applicable to each sale and not to aggregate value of sale made during the year.

Question 5:

Whether TCS @ 1% on sale of motor vehicle is applicable in case of an individual?

Answer 5:

The definition of 'Seller' shall be applicable in the case of sale of motor vehicles also.

Accordingly, an individual who is liable to audit as per the provisions of section 44AB during the financial year immediately preceding the financial year in which the motor vehicle is sold shall be liable for collection of tax at source on sale of motor vehicle by him.

Question 6:

How would the provisions of TCS on sale of motor vehicle be applicable in a case where part of the payment is made in cash and part is made by cheque?

Answer 6:

The provisions of TCS on sale of motor vehicle exceeding Rs. 10 lakhs is not dependent on mode of payment. Any sale of motor vehicle exceeding Rs. 10 lakhs would attract TCS @ 1%.

(6) Time of Collection of tax [Section 206C(1)/(1C)/(1F)]:

The tax should be collected at the time of debiting of the amount payable by the buyer or licensee or lessee, as the case may be, to his account OR at the time of receipt of such amount from the buyer or licensee or lessee, as the case may be, in cash or by the issue of a cheque or draft or any other made, whichever is earlier.

In case of sale of a motor vehicle of the value exceeding Rs. 10 lakhs, tax shall be collected at the time of receipt of such amount.

(7) Non-applicability of TCS - [Section 206C(1A)]:

No collection of tax shall be made in the case of a resident buyer, if such buyer furnishes to the person responsible for collecting tax, a declaration in writing in duplicate in the prescribed form (Form No. 27C) and verified in the prescribed manner to the effect that goods referred to in section 206C(1) above are to be utilised for the purpose of manufacturing, processing or producing articles or things or for the purposes of generation of power and not for trading purposes.

(8) Furnishing of copy of declaration within specified time - [Section 206C(1B)]:

The person responsible for collecting tax under this section shall deliver or cause to be delivered to the Chief Commissioner (CCIT) or Commissioner (CIT); one copy of the declaration referred to in sub-section (1A) on or before the 7th day of the month next following the month in which the declaration is furnished to him.

(9) Remittance under LRS of RBI through an authorized dealer or purchase of an overseas tour package

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

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

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

Rate of TCS in case of collection by an authorized dealer/ seller of an overseas tour programme package

S. No.	Amount and purpose of remittance	Rate of TCS upto 30.9.2023	Rate of TCS on or after 1.10.2023
(i)	Where the amount is for purchase of an overseas tour programme package	5% of such amount (without	5% till ₹ 7 lakhs, 20% thereafter
		any threshold limit)	
(ii)	(a) Where the amount is remitted for the purpose of education or medical treatment; and (b) the amount or aggregate of the amounts being remitted by a buyer is less than ₹ 7 lakhs in a financial year	Nil (No tax to be collected at source)	
(iii)	(a) Where the amount is remitted for the purpose other than mentioned in (ii) above; and (b) the amount or aggregate of the amounts being remitted by a buyer is less than ₹ 7 lakhs in a financial year	Nil (No tax to be collected at source)	

(iv)	(a) where the amount is remitted for the purpose of education or medical treatment; and (b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year	5% of the amt or agg. of amts in excess of ₹ 7 lakh	
(v)	(a) where the amount is remitted for the purpose other than mentioned in (iv) above; and (b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year	5% of the amt or agg. of amts in excess of ₹ 7 lakh	20% of the amt or agg. of amts in excess of ₹ 7 lakh
(vi)	(a) where the amount being remitted out is a loan obtained from any financial institution as defined in section 80E, for the purpose of pursuing any education; and (b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year	0.5% of the amt or agg. of amts in excess of ₹ 7 lakh	

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 authority⁹ or any other person notified by the Central Government, subject to fulfillment of conditions stipulated thereunder.

Accordingly, the CBDT has, vide notification no. 99/2022 dated 17.8.2022, notified that the provisions of section 206C(1G) would not apply to a person (being a buyer) who is a non- resident in India in terms of section 6 and does not have a permanent establishment in India.

(10) For Section 206C(1H);

A person who purchases any goods but does not include –

- (A) The Central government, a State Government, an embassy, a High Commission, legation, commission, consulate and the trade representation of a foreign State, or

- (B) a local authority; or
- (C) a person importing goods into India or any other person as the Central Government may, by notification in the Official Gazette, specify for this purpose, subject to stipulated conditions.

(11) TCS to be paid within prescribed time - [Section 206C(3)]:

Any amount collected under sub-section (1) or (1C) shall be paid within the prescribed time to the credit of the Central Government or as the Board directs.

(12) Requirement to furnish PAN by Collectee - [Section 206CC]:

In order to strengthen the PAN mechanism, section 206CC has been inserted w.e.f. 01-04-2017. Collectee shall furnish his PAN to the person responsible to collect the tax at source.

If PAN is not intimated, tax shall be collected at twice the normal rate or @ 5%, whichever is higher.

However, this provision is not applicable in case of a non-resident collectee who does not have a permanent establishment in India.

Time limit for paying TCS to the credit of the Central Government

Person collecting sums in accordance with section 206C(1)/(1C)	Circumstance	Period within which such sum should be paid to the credit of the Central Government
(1) An office of the Government	(i) where the tax is paid without production of an income-tax challan	on the same day
	(ii) where tax is paid accompanied by an income-tax challan	on or before 7 days from the end of the month in which the collection is made
(2) Collectors other than an office of the Government	-	within one week from the last day of the month in which the collection is made

Main differences between TDS and TCS

TDS	TCS
TDS is tax deduction at source	TCS is tax collection at source
Person responsible for paying is required to deduct tax at source at the prescribed rate.	Seller of certain goods or provider of services is responsible for collecting tax at source at the prescribed rate from the buyer. Person who grants licence or 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.
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. However, in case of sale of motor vehicle of the value exceeding Rs. 10 lakhs, tax collection at source is required at the time of receipt of sale consideration.

CLASSWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Manoj is employed in a company in Indore. He would receive from his employer the following sums as his remuneration during financial year 23-24.

Basic Salary	₹ 40,000 per month
Dearness Allowance	40% of Basic Salary
Bonus	₹ 90,000

During the financial year 2023-24 he makes the following payments :

Life Insurance Premium	₹ 20,000
PPF	₹ 50,000
Donation to Prime Minister's National Relief Fund	₹ 15,000

Compute the amount of tax deductible at source per month from the salary of Mr. Manoj, if Mr. Manoj has following other incomes, as reported by him :

Loss under the Head House Property	₹ 50,000
Winnings from Lottery (gross)	₹ 80,000
Loss from business	₹ 15,000
Royalty income from school textbook	₹ 60,000 (TDS deducted ₹ 6,000).

Question 2

Dr. Khadoos is an individual Medical Practitioner. His gross receipts from profession for the year ending 31st March 2023 are 75 lakhs. The gross receipts for the year ending 31st March 2024 are likely to be 8 lakhs. During P.Y. 2023-24 he makes the following payments to a resident contractor for various activities:

Contract No	Name of Contractor	Description of Contract	Amount paid or Credited
A	Mr. X	Medical equipment maintenance contract	45,000
B	Mr. X	House hold personal equipment maintenance contract	2,50,000
C	Mr. Y	Clinic furnishing contract	18,000
D	Mr. Y	Clinic furnishing contract	27,000
E	Mr. Y	Clinic furnishing contract	57,000

Examine liability to deduct tax u/s 194C?

Question 3

ABC Ltd. took on sub-lease a building from J, an individual, with effect from 1-9-2023 on a rent of ₹ 80,000 p.m. It also took on hire machinery from J w.e.f. 1-10-2023 on hire charges of ₹ 9,000 p.m. ABC Ltd. entered into two separate agreements with J for sublease of building and hiring of machinery. The rent of building and hire charges of machinery for financial year 2023-24 amounting to ₹ 5,60,000 and ₹ 54,000 respectively were credited to the account of J in its books of account on 31.03.2024. Examine the obligation of ABC Ltd. to deduct tax at source in respect of the rent and hire charges.

Question 4

Mr. M, an individual, had let out his building on a monthly rent of ₹ 25,000. The tenant deducted tax u/s 194-I from the rent paid to M, but did not remit such tax to the credit of the Central Government. M filed his return of income for the A.Y. 2024-25 including therein the rental income from the said building and paid the balance tax on his total income after taking credit for tax deducted at source by the tenant. The Assessing Officer has called upon M to pay the tax to the extent of tax deducted at source. Is the Assessing Officer justified in doing so?

Question 5

Mr.X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 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 2021 for ₹40 lakh and ₹10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2023 is ₹ 85 lakh and ₹20 lakh for the house property and rural agricultural land, respectively. Determine 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.

Question 6

Compute the amount of tax deducted at source from the following payments to be made in financial year 2023-24.

Sr. No.	Date	Particulars
1	1-10-2023	Payment of ₹ 2,00,000 to Mr. Varun, a transporter, who owns 8 goods carriages throughout the previous year and furnishes his PAN to the payer.
2	1-11-2023	Payment of technical fees of ₹ 25,000 and Royalty of ₹20,000 to Mr. Siddharth who is having PAN.

3	30-6-2023	Payment of ₹ 36,000 to M/s. XYZ Private Limited for repair of building.
4	1-1-2024	Payment of ₹ 2,70,000 made to Mr. Ranveer for purchase of diaries made according to the specifications of Mr. Virat. However no material was supplied for such diaries by Mr. Virat to Mr. Ranveer
5	1-2-2024	Payment of commission of ₹ 15,000 made by Mr. Karan to Mr. Aditya
6	21-2-2024	Payment of interest on car loan to IDBI Bank ₹ 36,500/-
7	31-10-2023	Payment of ₹ 50,00,000 to Mr. Aditya Singhania, on resignation as received on maturity of Keyman Insurance policy by CEO and M.D. of Singhania Industries Limited. Mr. Singhania was the Keyman of this company.

Question 7

Examine the TDS implications under section 194A in the cases mentioned hereunder –

- (i) On 1.10.2023, Mr. Harish made a six month fixed deposit of Rs.10 lakh @ 9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2024.
- (ii) On 1.6.2023, Mr. Ganesh made three nine month fixed deposits of Rs.1 lakh each carrying interest @ 9% with Dwarka Branch, Janakpuri Branch and Rohini Branches of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2024.
- (iii) On 1.4.2023, Mr. Rajesh started a year recurring deposit of Rs.20,000 per month @8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2024.

Question 8

State the applicability of TDS provisions and TDS amount in the following cases:

- (a) Rent paid for hire of machinery by B Ltd. to Mr. Raman ₹ 2,50,000.
- (b) Fee paid to Dr. Srivatsan by Sundar (HUF) ₹ 35,000 for surgery performed on a member of the family.
- (c) ABC and Co. Ltd. paid ₹ 19,000 to one of its Directors as sitting fees on 1-01-2024.

CLASSWORK SOLUTIONS

Answer 2

Dr. Khadoos is a “specified person” since he is covered by tax audit for P.Y. 2022-2023 (preceding financial year). The TDS implications u/s. 194C of the payments made by him during P.Y. 2023-2024 are as follows:

- (a) **Contract A** : Since the one - time payment made to Mr. X exceeds ₹ 30,000, tax shall be deducted @ 1% on the amount of ₹ 45,000/-
- (b) **Contract B** : No TDS as the contract is for personal purposes.
- (c) **Contract C & D** : The payment made for each contract does not exceed ₹ 30,000 and the total payment for both the contracts does not exceed ₹ 1,00,000. Therefore tax will not be deducted at the time of making payments for these two contracts.
- (d) **Contract E** : The payment for this contract exceeds ₹ 30,000 and the total payment for all the contracts made to Mr. Y exceeds ₹ 1,00,000. Accordingly tax @ 1% on the total value of all the contracts shall be required to be deducted.

Answer 3

The rent of building for 7 months ₹ 5,60,000 and hire charges of machinery for 6 months ₹ 54,000 have been credited to Mr. J's account on 31-3-2024. Since the total amount of rent credited exceeds ₹ 2,40,000, TDS u/s. 194-I shall be calculated as follows:

• On rent for Building: 5,60,000 × 10%	₹ 56,000
• On hire charges for Machinery: 54,000 × 2%	₹ 1,080
Total	₹ 57,080

This amount of TDS shall be deposited by ABC Ltd. with the Central Government on or before 30th April, 2024 as per the time limit u/s. 200(1).

Answer 5

- (i) **Tax implications in the hands of Mr.X** : As per section 50C, the stamp duty value of house property (i.e. ₹ 85 lakh) would be deemed to be the full value of consideration arising on transfer of property. Therefore, ₹ 45 lakh (i.e. ₹ 85 lakh – ₹ 40 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y.24-25. Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X.
- (ii) **Tax implications in the hands of Mr.Y** : In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under section 56(2)(vii), if such difference exceeds

₹50,000. Therefore, in this case ₹ 25 lakh (₹ 85 lakh – ₹ 60 lakh) would be taxable in the hands of Mr.Y under section 56(2)(vii). Since agricultural land is not a capital asset, the provisions of section 56(2)(vii) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of “property” under section 56(2)(vii) includes only capital assets specified thereunder.

(iii) **TDS implications in the hands of Mr.Y** : Since the sale consideration of house property exceeds ₹50 lakh, Mr.Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be ₹ 60,000, being 1% of ₹ 60 lakh. TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

Answer 6

1. No tax is required to be deducted at source under section 194C by the payer on the payment made to Mr. Varun, since the following conditions are satisfied:-
 - (a) He owns 10 or less goods carriages at any time during the previous year;
 - (b) He is engaged in the business of plying, hiring or leasing goods carriages.
 - (c) He has submitted his P.A.N. to the payer.
2. No tax is required to be deducted at source under section 194J since the “individual” payments of royalty and technical fees do not exceed ₹ 30,000/-
3. Tax is required to be deducted at source under section 194C @ 2% of ₹ 36,000 i.e. ₹ 720 since the payment made for repair of building exceeds ₹ 30,000/-.
4. According to section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer, in case the material is purchased from a person other than the customer. In the given case, therefore, Mr. Virat is not required to deduct tax on the payment made to Mr. Ranveer, since this is a contract of “sale” and not a “work contract.”
5. No tax is required to be deducted at source under section 194H since the payment made does not exceed ₹ 15,000/-
6. No tax is required to be deducted at source under section 194A if the receiver of interest is a banking company.
7. As per section 194DA, tax shall be deducted at 5% on the payments received from life insurance policies if the amount received is taxable as per the provisions of Income tax Act. Accordingly, in this case, the TDS shall be 5% of ₹ 50,00,000 i.e. ₹ 2,50,000/-

Answer 7

- i. ABC Co-operative Bank has to deduct tax at source @ 10% on the interest of ₹ 45,000 ($9\% \times ₹ 10 \text{ lakh} \times \frac{1}{2}$) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, ₹ 4500
- ii. XYZ Bank has not to deduct tax at source @ 10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 20,250 [$1,00,000 \times 3 \times 9\% \times \frac{9}{12}$], which does not exceeds the threshold limit of ₹ 40,000. Since XYZ bank has adopted CBS, the aggregate interest credited / paid by all branches has to be considered. Since the aggregate interest of ₹ 20,250 does not exceeds the threshold limit of ₹ 40,000 no tax has to be deducted @ 10% under section 194A.
- iii. No tax has to be deducted under section 194A by PQR Bank on the interest of ₹ 10,400 falling due on recurring deposit on 31.3.2024 to Mr.Rajesh, since –
 - (1) “recurring deposit” has been included in the definition of “time deposit”; and
 - (2) Such interest dose not exceeds the threshold limit of ₹ 40,000.

Answer 8

- (a) Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceeds ₹ 2,40,000, the provisions of section 194-I for deduction of tax at source are attracted. The rate applicable for deduction of tax at source under section 194-I on rent paid for hire of plant and machinery is 2% assuming that Mr. Raman had furnished his permanent account number to B Ltd.
Therefore, the amount of tax to be deducted at source: = ₹ 2,50,000 × 2% = ₹ 5,000.
Note: In case Mr. Raman does not furnish his permanent account number to B Ltd., tax shall be deducted @ 20% on ₹ 2,50,000, by virtue of provisions of section 206AA.
- (b) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if it is subject to tax audit under section 44AB in the financial year preceding the current financial year.
However, if such payment made for professional services is exclusively for the personal purpose of any member of Hindu Undivided Family, then, the liability to deduct tax is not attracted.
Therefore, in the given case, even if Sundar (HUF) is liable to tax audit in the immediately preceding financial year, the liability to deduct tax at source is not attracted in this case since, the fees for professional service to Dr. Srivatsan is paid for a personal purpose i.e. the surgery of a member of the family, if it does not exceed 50 lakhs.

(c) Section 194J provides for deduction of tax at source @ 10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of ₹ 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director who is not an employee.

Therefore, tax@10% has to be deducted at source under section 194J in respect of the sum of ₹ 19,000 paid by ABC Ltd. to its director.

HOMEWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

BBC Ltd. makes the following payments to Mr. Shiva, a contractor, for contract work during the P.Y. 2023-24:

₹ 20,000 on 01-05-2023

₹ 25,000 on 01-08-2023

₹ 28,000 on 01-12-2023

On 01-03-2024, a payment of ₹ 30,000 is due to Mr. Shiva on account of a contract work. Discuss whether BBC Ltd. is liable to deduct tax at source u/s 194C from payments made to Mr. Shiva.

Question 2

Examine the applicability of the provisions for tax deduction at source u/s 194DA in the following cases:

- (a) Mr. Nikunj, a resident, is due to receive ₹ 4.50 lakhs on 31-03-2024, towards maturity proceeds of LIC policy taken on 01-04-2021, for which the sum assured is ₹ 4 lakhs and the annual premium is ₹ 1,25,000.
- (b) Mr. Y, a resident, is due to receive ₹ 3.25 lakhs on 31.3.2024 on LIC policy taken on 31.3.2012, for which the sum assured is ₹ 3 lakhs and the annual premium is ₹ 35,000.
- (c) Mr. Zeeshan, a resident, is due to receive ₹ 95,000 on 01-10-2023 towards maturity proceeds of LIC policy taken on 01-10-2012 for which the sum assured is ₹ 90,000 and the annual premium was ₹ 15,000.

Question 3

Discuss the following issues in the context of the provisions of the Income Tax Act, 1961, with specific reference to clarification given by the CBDT:

Sony TV, a television channel, made payment of ₹ 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 Sony TV. Would such payment be liable for tax deduction at source u/s 194C? Discuss. Also, examine whether the provisions of tax deduction at source u/s 194C would be attracted if the payment was made by Sony TV for acquisition of telecasting rights of the content already produced by the production house.

Question 4

Mrs. Ananya, a landlord, derived income from rent from letting a house property to M/s Royal Corporation Ltd. of ₹ 1,00,000 p.m. She charged GST @ 18% on lease rent charges. Calculate the deduction of tax at source (TDS) to be made by M/s Royal Corporation Ltd. on payment made to Mrs. Ananya and narrate related formalities in relation to TDS.

Question 5

Mr. Chawla, a salaried individual, pays rent of ₹ 55,000 p.m. to Mr. Sawla from June, 2022. 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. Chawla vacated the premises on 31st December, 2023? Also, what would be your answer if Mr. Sawla does not provide his PAN to Mr. Chawla?

Question 6

MMT Ltd. makes a payment of ₹ 28,000 to Mr. Ranveer on 02-08-2023 towards fees for professional services and another payment of ₹ 25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions u/s 194J are attracted.

Question 7

An amount of ₹ 40,000 was paid to Mr. Mahendra on 01-07-2023 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 50,000 was due to Mr. Mahendra on 28-02-2024, 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 22-06-2024. Compute the interest chargeable u/s 201(1A).

Question 8

Examine the applicability of TDS provisions and TDS amount in the following cases:

- (a) Rent paid for hire of machinery by Baba Ltd. to Mr. Tiger ₹ 3,10,000.
- (b) Fee paid to Dr. Dubey by Ramesh (HUF) ₹ 35,000 for surgery performed on a member of the family.
- (c) SSS & Co. Ltd. paid ₹ 19,000 to one of its directors as sitting fees on 01-01-2024.

Question 9

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the F.Y. 2023 - 24:

- (a) Payment made by a company to sub-contractor ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31-03-2024.
- (b) Winning from horse race ₹ 1,50,000.
- (c) ₹ 2,00,000 paid to Mr. Amit, a resident individual, on 22-02-2024 by the State of Uttar Pradesh on compulsory acquisition of his urban land.

Question 10

Mr. Divyam doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the F.Y. 2022-23	2,05,00,000
Total turnover for the F.Y. 2023-24	95,00,000

Examine whether tax deduction at source provisions are attracted for the below said expenses incurred during the F.Y. 2023-24:

Particulars	₹
Interest paid to Bank of India	41,000
Contract payment to Charan (2 contracts of ₹ 12,000 each)	24,000
Shop rent paid (one payee)	2,50,000
Commission paid to Nagraj	7,000

HOMEWORK SOLUTIONS

Answer 1

In this case, the individual contract payments made to Mr. Shiva does not exceed ₹ 30,000. However, since the aggregate amount paid to Mr. Shiva during the P.Y. 2023-24 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 30,000, due on 01-03-2024, taking the total from ₹ 73,000 to ₹ 1,03,000), the TDS provisions u/s 194C would get attracted. Tax has to be deducted @ 1% on the entire amount of ₹ 1,03,000 from the last payment of ₹ 30,000 and the balance of ₹ 28,970 (i.e., ₹ 30,000 – ₹ 1,030) has to be paid to Mr. Shiva.

Answer 2

- (a) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 4.50 lakhs due on 31.3.2024 are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @ 5% under section 194DA on the amount of income comprised therein i.e., on ₹ 75,000 (₹ 4,50,000, being maturity proceeds - ₹ 3,75,000, being the entire amount of insurance premium paid).
- (b) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 01-04-2012, the sum of ₹ 3.25 lakhs due to Mr. Manish would be exempt u/s 10(10D) in his hands. Hence, no tax is required to be deducted at source u/s 194DA on such sum payable to Mr. Manish.
- (c) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31-03-2012, and consequently, the maturity proceeds of ₹ 95,000 would not be exempt u/s 10(10D) in the hands of Mr. Zeeshan, the tax deduction provisions u/s 194DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.

Answer 3

- (a) In this case, since the programme is produced by the production house as per the specifications given by Sony TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' u/s 194C. Therefore, the payment of ₹ 50 lakhs made by Sony TV to the production house would be subject to tax deduction at source u/s 194C. If, however, the payment was made by Sony TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for 'carrying out any work', as required u/s 194C(1). Therefore, such payment would not be liable for tax deduction at source u/s 194C.

(b) The issue of whether fees/charges taken or retained by advertising companies from media companies for canvassing/booking advertisements (typically 15% of the billing) is 'commission' or 'discount' to attract the provisions of tax deduction at source has been clarified by the CBDT vide its Circular No.5/2016 dated 29-02-2016.

The relationship between the media company and the advertising agency is that of a 'principal-to-principal' and, therefore, not liable for TDS u/s 194H. In view of the same, the CBDT has clarified that no liability to deduct tax is attracted on payments made by television channels to the advertising agency for booking or procuring of or canvassing for advertisements.

Accordingly, in view of the clarification given by CBDT, no tax is deductible at source on the amount of ₹ 15 lakhs retained by Newbee Advertising Ltd., the advertising company, from payment due to Sky TV, a television channel.

Answer 4

(a) As per Circular No. 23/2017 dated 19th July, 2017 issued by the CBDT, the GST paid by the tenant does not partake the nature of income of the landlord. The landlord only acts as a collecting agency for collection of GST. Therefore, tax deducted at source u/s 194-I would be required to be made on the amount of rent paid or payable excluding the amount of GST, i.e. tax has to be deducted u/s 194-I on ₹ 12 lakh.

(b) Tax is deductible @ 10% u/s 194-I.

(c) Hence, in the given case, TDS u/s 194-I would amount to ₹ 10,000, to be deducted every month.

(d) Tax deducted should be deposited within prescribed time i.e. on or before seven days from the end of the month in which the deduction is made and upto 30th April for the month of March.

Answer 5

Since Mr. Chawla pays rent exceeding ₹ 50,000 p.m. in the F.Y. 2023-24, he is liable to deduct tax at source @ 5% of such rent for F.Y. 2022-23 u/s 194-IB. Thus, ₹ 27,500 (₹ 55,000 × 5% × 10) has to be deducted from rent payable for March, 2024.

If Mr. Chawla vacated the premises in December, 2023, then tax of ₹ 19,250 (₹ 55,000 × 5% × 7) has to be deducted from rent payable for December, 2023.

In case Mr. Sawla does not provide his PAN to Mr. Chawla, tax would be deductible @ 20%, instead of 5%.

In case 1 above, this would amount to ₹ 1,10,000 (₹ 55,000 × 20% × 10) but the same has

to be restricted to ₹ 55,000, being rent for the month of March, 2024.

In case 2 above, this would amount to ₹ 77,000 [₹ 55,000 × 20% × 7] but the same has to be restricted to ₹ 55,000, being rent for December, 2023.

Answer 6

TDS provisions u/s 194J would not get attracted, since the limit of ₹ 30,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ranveer towards fees for professional services and fees for technical services during the P.Y. 2023-24.

Answer 7

Interest u/s 201(1A) would be computed as follows:

Particulars	₹
1% on tax deductible but not deducted i.e., 1% on for 8 months ₹ 4,000 for 8 months (1.7.2023 to 27.2.24)	320
1½% on tax deducted but not deposited i.e. 1½% on ₹ 9,000 for 4 months (28.2.24 till 22.6.24) (Since part of a month considered full month)	540
Total Interest	860

Answer 8

(a) Since the rent paid for hire of machinery by Baba Ltd. to Mr. Tiger exceeds ₹ 2,40,000, the provisions of section 194-I for deduction of tax at source are attracted.

The rate applicable for deduction of tax at source u/s 194-I on rent paid for hire of plant and machinery is 2% assuming that Mr. Tiger had furnished his PAN to Baba Ltd.

Therefore, the amount of tax to be deducted at source = ₹ 3,10,000 × 2% = ₹ 6200.

Note:

In case Mr. Tiger does not furnish his PAN to Baba Ltd., tax shall be deducted @ 20% on ₹ 3,10,000, by virtue of provisions of section 206AA.

(b) As per the provisions of section 194J, a HUF is required to deduct tax at source on fees paid for professional services only if it is subject to tax audit u/s 44AB in the F.Y. preceding the current F.Y.

However, if such payment made for professional services is exclusively for the personal purpose of any member of HUF, then, the liability to deduct tax is not attracted.

Therefore, in the given case, even if Ramesh (HUF) is liable to tax audit in the immediately preceding F.Y., the liability to deduct tax at source is not attracted in this case since, the fees for professional service to Dr. Dubey is paid for a personal purpose i.e. the surgery of a member of the family.

- (c) Section 194J provides for deduction of tax at source @ 10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible u/s 192. The threshold limit of ₹ 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered u/s 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax @ 10% has to be deducted at source u/s 194J in respect of the sum of ₹ 19,000 paid by SSS & Co. Ltd. to its director.

Answer 9

- (a) Provisions of tax deduction at source u/s 194C are attracted in respect of payment by a company to a sub-contractor. U/s 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% if the payment is made to an individual or HUF and 2% for others.

Assuming that sub-contractor to whom payment has been made is an individual and the aggregate amount credited during the year is ₹ 4,20,000, tax is deductible @ 1% on ₹ 4,20,000. Tax to be deducted = ₹ 4,20,000 × 1% = ₹ 4,200

- (b) U/s 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000. The rate of deduction of tax at source is 30%. Assuming that winnings are paid to the residents, education cess @ 2% and secondary and higher education cess @ 1% has not been added to the tax rate of 30%.

Hence, tax to be deducted = ₹ 1,50,000 × 30% = ₹ 45,000.

- (c) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source @ 10%, if such payment or the aggregate amount of such payments to the resident during the F.Y. exceeds ₹ 2,50,000.

In the given case, there is no liability to deduct tax at source as the payment made to Mr. Amit does not exceed ₹ 2,50,000.

Answer 10

As the turnover of Divyam for F.Y. 2021-22, i.e. ₹ 205 lakh, has exceeded the monetary limit of ₹ 100 lakh prescribed u/s 44AB, he has to comply with the tax deduction provisions during the F.Y. 2023-24, subject to, however, the exemptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to Bank of India:

TDS u/s 194A is not attracted in respect of interest paid to a banking company.

Contract payment of ₹ 24,000 to Charan for 2 contracts of ₹ 12,000 each:

TDS provisions u/s 194C would not be attracted if the amount paid to a contractor does not exceed ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during the F.Y. Therefore, TDS provisions u/s 194C are not attracted in this case.

Shop Rent paid to one payee:

Tax has to be deducted u/s 194-I as the rental payment exceeds ₹ 2,40,000.

Commission paid to Nagraj:

No, tax has to be deducted u/s 194-H in this case as the commission does not exceed ₹ 15,000.

ALTERNATE MINIMUM TAX

CONCEPT OF ALTERNATE MINIMUM TAX ('AMT')

Applicability of AMT Provisions

- Provisions of AMT are applicable to all assessees except companies provided the assessee has claimed benefit under any of the following provisions:
 - Deductions prescribed under 'Heading C' of Chapter VI-A (other than Section 80P) {ie, Sections 80-IA to 80-IE, 80JJA, 80JJAA, 80LA, 80PA, 80QQB & 80RRB}; or
 - Section 10AA {Deduction/Exemption to SEZ Units}; or
 - Section 35AD {Investment-Linked Deduction}.
- However, in case of assessees taxable at slab rates (ie, Individual, HUF, AOP/BOI/ Artificial Juridical Person), the provisions of AMT would not be applicable if the 'Adjusted Total Income' of such person does not exceed ₹ 20 lakhs. {Section 115JEE}
- The provisions are not applicable to a person who has exercised the option u/s 115BAC

Important Note:

Provisions of Sections 80-IA to 80-IE, 80JJA, 80LA, 80P and 80PA have been excluded from the scope of CA-Intermediate's syllabus. Therefore, the present discussion in relation to AMT is limited with respect to deduction u/s 80JJAA, 80QQB, 80RRB, 10AA & 35AD only.

<p>Tax Payable As Per AMT Provisions {Section 115JC}</p>	<ul style="list-style-type: none"> Where the regular income tax payable for a financial year computed as per the provisions of the Income Tax Act, 1961 is less than the AMT payable for such year, the 'Adjusted Total Income' shall be deemed to be the total income of the person and such person shall be liable to pay income tax on the 'Adjusted Total Income' @ 18.5%. In other words, a person to whom the provisions of AMT are applicable, is liable to pay higher of the following two amounts: <ul style="list-style-type: none"> ➤ Regular income tax payable as per the normal provisions of the Income Tax Act, 1961 ➤ 18.5% of 'Adjusted Total Income' 													
<p>Calculation Of 'Adjusted Total Income'</p>	<table border="1"> <tr> <td>Total income computed as per the normal provisions of the Income Tax Act, 1961</td> <td>XXX</td> </tr> <tr> <td>Add: Deduction u/s 80JJAA, 80QQB & 80RRB</td> <td>XXX</td> </tr> <tr> <td>Add: Deduction/Exemption u/s 10AA</td> <td>XXX</td> </tr> <tr> <td>Add: Deduction u/s 35AD</td> <td>XXX</td> </tr> <tr> <td>Less: Depreciation allowable as per Section 32 assuming that deduction u/s 35AD was not allowed on the assets on which deduction u/s 35AD has been claimed</td> <td>(XXX)</td> </tr> <tr> <td style="text-align: center;">Adjusted Total Income</td> <td style="text-align: center;">XXXX</td> </tr> </table>	Total income computed as per the normal provisions of the Income Tax Act, 1961	XXX	Add: Deduction u/s 80JJAA, 80QQB & 80RRB	XXX	Add: Deduction/Exemption u/s 10AA	XXX	Add: Deduction u/s 35AD	XXX	Less: Depreciation allowable as per Section 32 assuming that deduction u/s 35AD was not allowed on the assets on which deduction u/s 35AD has been claimed	(XXX)	Adjusted Total Income	XXXX	
Total income computed as per the normal provisions of the Income Tax Act, 1961	XXX													
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Less: Depreciation allowable as per Section 32 assuming that deduction u/s 35AD was not allowed on the assets on which deduction u/s 35AD has been claimed	(XXX)													
Adjusted Total Income	XXXX													
<p>Tax Credit For AMT {Section 115JD}</p>	<ul style="list-style-type: none"> AMT paid in excess of the regular income tax computed under the normal provisions will be available as credit against future tax liability. The AMT credit will be allowed to be carried forward and set-off for a period of 15 years succeeding the year in which such credit becomes available. Credit is allowed in the year in which regular tax is more than AMT. The credit allowed to be set-off will be restricted to the difference between the regular income tax computed under the normal provisions and the AMT. In case where the assessee has not claimed any deduction u/s 80JJAA, 80QQB, 80RRB, 10AA or 35AD in any year and the 'Adjusted Total Income' of that year does not exceed ₹ 20 lakhs, it would still be entitled to set-off his b/f AMT credit in that year. 													

	<ul style="list-style-type: none"> The provisions are not applicable to a person who has exercised the option u/s 115BAC
Audit Report	<ul style="list-style-type: none"> Assessee is required to obtain a report from a Chartered Accountant certifying that 'Adjusted Total Income' and AMT have been correctly computed. Such report is required to be furnished on or before the specified date referred to in Section 44AB.

Illustration on AMT:

Mr X, an individual, set up a unit in Special Economic Zone (SEZ) in FY 2019-20 for production of washing machines. The unit fulfills all the conditions of Section 10AA of the Income Tax Act, 1961. During FY 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 ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2023 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for FY 2023-24 are as follows:

Particulars	Amount (₹)
Profit of unit located in SEZ	40,00,000
Export sales of above unit	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction u/s 35AD)	1,05,00,000

Compute income tax (including AMT u/s 115JC) payable by Mr X for AY 2024-25.

Solution

- Computation of Total Income & Tax Liability of Mr X (As Per Regular Provisions of Income Tax Act, 1961):

Computation of Total Income	Amount (₹)	Amount (₹)
Profit from SEZ unit	40,00,000	
Less: Exemption/Deduction u/s 10AA {40L × 80L / 100L}	(32,00,000)	
Business Income of SEZ Unit Chargeable to Tax		8,00,000

Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction u/s 35AD (75L – 10L Cost of Land)	(65,00,000)	
Business Income of Warehousing Facility Chargeable to Tax		40,00,000
Total Income		48,00,000
Computation of Tax Liability		Amount (₹)
Tax on ₹ 48,00,000 as per applicable slab rates		12,52,500
Add: Health & Education Cess @ 4%		50,100
Tax Liability		13,02,600

• **Computation of 'Adjusted Total Income' & Tax Liability of Mr X**

(As Per AMT Provisions):

Computation of 'Adjusted Total Income'	Amount (₹)
Total Income (As Computed Above)	48,00,000
Add: Deduction/Exemption u/s 10AA	32,00,000
Add: Deduction u/s 35AD	65,00,000
Less: Depreciation u/s 32 on Building (₹ 65L @ 10%) (Assumed that the entire capital expenditure is incurred on building)	(6,50,000)
'Adjusted Total Income'	1,38,50,000
Computation of Tax Liability	Amount (₹)
AMT @ 18.5% on ₹ 1,38,50,000	25,62,250
Add: Surcharge @ 15% (Since Adjusted Total Income exceeds ₹ 1 crore)	3,84,338
Tax + Surcharge	29,46,588
Add: Health & Education Cess @ 4%	1,17,863
Tax Liability u/s 115JC	30,64,451
Tax Liability u/s 115JC (Rounded off u/s 288B)	30,64,450

- **CONCLUSION:** Since the regular income tax payable is less than AMT payable, the 'Adjusted Total Income' shall be deemed to be the total income and accordingly, the tax liability would come out to ₹ 30,64,450 (18.5% of Adjusted Total Income + Applicable Surcharge + 4% H&EC).

- AMT Credit To Be Carried-Forward u/s 115JD

Particulars	Amount (₹)
Tax Liability (As per Section 115JC)	30,64,450
Less: Tax Liability as per normal provisions (As per regular provisions of the Income Tax Act, 1961)	(13,02,600)
AMT Credit To Be Carried-Forward	17,61,850

COMPUTATION OF TOTAL INCOME

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.03.2023 and came to India for the first time on 16.03.2023. She left for USA on 19.9.2023. She returned to India again on 27.03.2024. While in India, she had purchased a show room in Mumbai on 22.04.2023, which was leased out to a company on a rent of ₹ 25,000 p.m. from 1.05.2023. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2024. She had received the following gifts from her relatives and friends during 1.4.2023 to 31.3.2024:

- From parents of husband ₹ 51,000
- From married sister of husband ₹ 11,000
- From two very close friends of her husband, ₹ 1,51,000 and ₹ 21000 ₹ 1,72,000

Determine her residential status and compute the total income chargeable to tax along with the amount of tax payable on such income for the Assessment Year 2024-25.

Answer

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

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If an individual satisfies any one of the conditions mentioned above, he is a resident.

If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Miss Charlie, an American National, for A.Y. 2024-25 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2024-25 i.e. P.Y. 2023-24 and in the preceding four assessment year.

P.Y. 2023-24

01.04.2023 to 19.09.2023	172 days
27.03.2024 to 31.03.2024	5 days
Total	177 days

Four preceding previous years

P.Y. 2022-23 [1.4.2022 to 31.3.2023]	16 days
P.Y. 2021-22 [1.4.2021 to 31.3.2022]	Nil
P.Y. 2020-21 [1.4.2020 to 31.3.2021]	Nil
P.Y. 2019-20 [1.4.2019 to 31.3.2020]	Nil
Total	16 days

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 16 days. Therefore, due on non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2024-25.

Computation of total income of Miss Charile for the A.Y. 2024-25

Particulars	₹	₹
Income from house property		
Show room located in Mumbai remained on rent from 01.05.2023 to 31.03.2024 @ ₹ 25,000/-p.m. Gross Annual Value [₹ 25,000 × 11] (See Note 1 below)	2,75,000	
Less: Municipal taxes	(Nil)	
Net Annual Value (NAV)	2,75,000	
Less: Deduction under section 24		
30% of NAV	82,500	
Interest on loan	97,500	(1,80,000)
Income from other sources		95,000
Gifts received from non-relatives is chargeable to tax as per section 56(2)(x) if the aggregate value of such gifts exceeds ₹ 50,000		
- ₹ 51,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relatives' and gifts from a relative are not chargeable to tax		Nil

- ₹ 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax	Nil	
- Gift received from two friends of husband ₹ 1,51,000 and ₹ 21,000 aggregating to ₹ 1,72,000 is taxable under section 56(2)(x) since the aggregate of ₹ 1,72,000 exceeds ₹ 50,000. (See Note 2 below)	1,72,000	1,72,000
Total income		2,67,000

Computation of tax payable by Miss Charile for the A.Y. 2024-25

Particulars	₹
Tax on total income of ₹ 2,67,000	850
Add: Health and Education cess @ 4%	34
Total tax payable	884
Rounded off u/s 288B	880

Notes:

- Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
- If the aggregate value of taxable gifts received from on-relatives exceeds ₹ 50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of ₹ 1,72,000 is taxable under section 56(2)(x).
- Since Miss Charlie is a non-resident for the A.Y. 2024-25, rebate under section 87A would not be available to her, even though her total income is less than ₹ 5 lacs.

Question 2

Dr. Niranjana, a resident individual. Aged 60 years is running a clinic. Her Income and Expenditure Account for the year ending March 31, 2024 is as under:

Expenditure	₹	Income	₹
To Medicine consumed	35,38,400	By Consultation and medical charges	58,85,850
To Staff Salary	13,80,000	By Income-tax refund	5,450

To clinic consumables	1,10,000	(principal ₹ 5,000, interest ₹ 450)	
To Rent paid	90,000		
To Administrative expenses	2,55,000	By Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To Amount paid to scientific research association approved under section 35	1,50,000	By rent	27,000
To Net profit	4,29,900		
	59,53,300		59,53,300

(i) Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.

(ii) Clinic equipment's are:

1.4.2023	Opening W.D.V	₹ 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 ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2022, has been included in "administrative expenses".

(iv) She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".

(v) Dr. Niranjana availed a loan of ₹ 5,00,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the year 2023-24.

(vi) She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees / donation) to the university for full time education of her daughter.

(vii) An amount of ₹ 28,000 has also been paid by cheque on 27th March, 2024 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2024-25.

Answer

Computation of total income and tax liability of Dr. Niranjana for A.Y. 2024-25

	Particulars	₹	₹	₹
I	Income from Salary			
	Basic Salary (₹ 7,500 × 12)		90,000	
	Less: Standard deduction under section 16(ia)		(50,000)	40,000
II	Income from house property			
	Gross Annual Value (GAV)		27,000	
	Less: Municipal taxes paid		(2,000)	
III	Net Annual Value (NAV)		25,000	
	Less: Deduction u/s 24 @ 30% of ₹ 25,000		(7,500)	17,500
	Income from profession			
	Net profit as per Income and Expenditure account		4,29,900	
	Less: Items of income to be treated separately			
	(i) Rent received	27,000		
	(ii) Winning from game show on T.V. (net of TDS)	35,000		
	(iii) Income tax refund	5,450	(67,450)	
			3,62,450	
	Less: Allowable expenditure			
	Depreciation on Clinic equipment's			
	On ₹ 5,00,000 @ 15%	75,000		
	On ₹ 2,00,000 @ 7.5%	15,000	(90,000)	
	(On equipment's acquired during the year in December 2023, she is entitled to depreciation @ 50% of normal depreciation, since the same are put to use for less than 180 days during the year)			
			2,72,450	
	Add: Items of expenditure not allowable while computing business income			
	(i) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
	(ii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	32,000	3,04,450
	Income from other sources			
	(a) Interest of income-tax refund		450	

(b) Winnings from the game show on T.V. (₹ 35,000 + ₹ 15,000)		50,000	50,450
Gross Total Income			4,12,400
Less:: Deductions under Chapter VI A:			
(a) Section 80C – Tuition fee paid to university for full time education of her daughter		1,00,000	
(b) Section 80D – Medical insurance premium (fully allowed since she is a senior citizen)		28,000	
(c) Section 80E – Interest on loan taken for higher education is deductible		55,000	(1,83,000)
Total income			2,29,400

Notes:

- (i) The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head “Income from other sources”.
- (ii) Winning from gate show on T.V should be grossed up for the chargeability under the head “Income from other sources” (₹ 35,000 + ₹ 15,000). Thereafter, while computing tax liability, TDS of ₹ 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @ 30% as per section 115BB.
- (iii) Since Dr. Niranjana is staying in a rented premise in Surat itself, she would not be eligible for deduction u/s 80GG, as she owns a house in Surat which she has let out.

Question 3

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 read as follows:

Expenditure	(₹)	Income	(₹)	(₹)
Salary to staff	15,50,000	Fees earned		
Stipend to articled Assistants	1,37,000	Audit	27,88,000	
Incentive to articled assistants	13,000	Taxation services	15,40,300	
Office rent	12,24,000	Consultancy	12,70,000	55,98,300
		Share of profit from partnership firm		18,124

Printing and stationery	12,22,000	Honorarium received from various institutions for valuation of answer papers		15,800
	31,600	Rent received from residential flat let out		85,600
Purchase of Car	80,000			
Repair, maintenance and petrol of Car	4,000			
Traveling expenses	5,25,000			
Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
	57,17,824			57,17,824

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is ₹ 10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt.
- (iv) Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2023 to 30-09-2024.
- (v) Salary include ₹ 30,000 to a compute specialist in cash for assisting Ms. Purvi in one professional assignment.
- (vi) The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.
- (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000, respectively, paid in cash.
- (viii) She invested an amount of ₹ 10,000 in National Saving Certificate.

Compute the total income and tax payable of Ms. Purvi for the assessment year 2024-25.

Answer

Computation of total income and tax liability of Ms. Purvi for the A.Y. 2024-25

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		15,800
Gross Total Income		9,93,820
Less: Deductions under Chapter VI-A (See Working Note 4)		(10,000)
Total Income		9,83,820
Tax on total income		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @ 5%	12,500	
₹ 5,00,001 – ₹ 9,83,820 @ 20%	96,764	1,09,264
Add: Health and Education cess @ 4%		4,371
Total tax liability		1,13,635
Tax Payable		1,13,640

Working Notes:

(1) Income from House Property

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

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

Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds ₹ 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(iii) Municipal Taxes paid in respect of residential flat let out	3,000	
		1,13,000

		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724
Less: Income credited but not taxable under this head		
(i) Share of profit from partnership firm	18,124	
(ii) Honorarium for valuation of answer papers	15,800	
(iii) Rent received from letting out of residential flat	85,600	(1,19,524)
		9,32,200
Less: Depreciation on motor car @ 15% (See Note (i) below)		(12,000)
		9,20,200

Notes :

- (i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).
- (ii) Incentive to articled assistants for passing IPCC examination in their first attempt is deductible under section 37(1).
- (iii) Repairs and maintenance paid in advance for the period 1.4.2024 to 30.9.2024 i.e. for 6 months amounting to ₹ 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	₹	₹
Share of profit from partnership firm	18,124	
Less: Exempt under section 10(2A)	(18,124)	Nil
Honorarium for valuation of answer papers		15,800
		15,800

(4) Deduction under Chapter VI-A:

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

Notes:

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

Question 4

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 ₹ 11,20,000.
- (2) The following incomes were credited in the profit and loss account:
 - (a) Share of profit from partnership firm ₹ 22,000
 - (b) Interest on debentures ₹ 17,500.
 - (c) Winnings from races ₹ 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 ₹ 58,000.
Closing stock ₹ 12,000.
- (4) ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
- (5) Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.
- (6) Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.
- (7) Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes. 3/4th is for business purposes.
- (8) Miscellaneous expenses included ₹ 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 ₹ 55,00. Depreciation allowed as per income-tax Rules, 1962 was ₹ 50,000.
- (10) Drawings ₹ 10,000.
- (11) Investment in NSC ₹ 15,000.

Compute the total income of Mr. Y for the assessment year 2024-25.

Answer

Computation of total income of Mr. Y for the A.Y. 2024-25

Particulars	₹
Profits and gains of business or profession (See Working Note 1 below)	10,71,500
Income from other sources (See Working Note 2 below)	32,500
Gross Total Income	11,04,000
Less: Deduction under section 80C (Investment in NSC)	(15,000)
Total Income	10,89,000

Working Notes:

1. Computation of profits and gains of business or profession

Particulars	₹	₹
Net profit as per profit and loss account		11,20,000
Add: Expenses debited to profit and loss account but not allowable as deduction		
Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	
Motor car expenses attributable to personal use not allowable (Rs. 78,000 × ¼)	19,500	
Depreciation debited in the books of account	55,000	
Drawings (not allowable since it is personal in nature) [See Note (iii)]	10,000	
Investment in NSC [See Note (iii)]	15,000	1,02,000
		12,22,000
Add: Under statement of closing stock		12,000
		12,34,000
Less: Under statement of opening stock		(58,000)
		11,76,000
Less: Incomes credited to profit and loss account but not taxable as business Income		
Share of profit from partnership firm (Exempt under section 10(2A))	22,000	
Interest on debentures (taxable under the head "Income from other sources")	17,500	

Winnings from races (taxable under the head Income from other sources")	15, 000	(54,500)
		11,21,500
Less: Depreciation allowable under the Income-tax Rules, 1962		(50,000)
		10,71,500

2. Computation of "Income from other sources"

Particulars	₹
Interest on debentures	17,500
Winnings from races	15,000
	32,500

Notes:

The following assumptions have been made in the above solution:

- The figures of interest on debentures and winnings from races represent the gross income (i.e., amount received plus tax deducted at source).
- In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is ₹ 50,000. It has been assumed that, in the said figure of ₹ 50,000, only proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

Question 5

Balamurugan furnishes the following information for the year ended 31-03-2024:

Particulars	₹
Income from business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000
Speculation business income	1,00,000
Income by way of salary (Computed)	60,000
Long term capital gain u/s 112	70,000

Compute his total income, tax liability and advance tax obligations.

Answer

Computation of total income of Balamurugan for the year ended 31.03.2024

Particulars	₹	₹
Salaries	60,000	
Less: Loss from house property	(15,000)	
Net Salary (after set off of loss from house property)		45,000
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss set-off	(1,35,000)	
Net business loss to be set-off against long-term capital gain	(35,000)	
Capital Gains		
Long term capital gain	70,000	
Less: Business loss set-off u/s 71	(35,000)	
Long term capital gain after setoff of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		5,80,000

Computation of tax liability

Particulars	₹
On total income of Rs. 80,000 (excluding lottery winning)	Nil
On lottery winnings of Rs. 5,00,000 @ 30%	1,50,000
Add: Health and Education cess @ 4%	6,000
Total tax liability	1,56,000

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of ₹ 6,000 (₹ 1,56,000 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Notes:

- (1) The basic exemption limit of ₹ 2,50,000 has to be first exhausted against salary income of ₹ 45,000. The unexhausted basic exemption limit of ₹ 2,05,000 can be adjusted against long-term capital gains of ₹ 35,000 as per section 112, but not against lottery winnings which are taxable at a flat rate of 30% under section 115BB.

- (2) The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31st March, 2024. The first proviso to section 234C(1) would be attracted only in case of non-deduction or short-deduction of tax at source under section 194B.

Question 6

Mr. Rajiv, aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2023-24.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening balance (1.4.2023)	12,000	Staff salary, bonus and stipend to articled clerks	21,50,000
Cash on hand and at Bank		Other administrative expenses	11,48,000
Fee from professional services	59,38,000	Office rent	30,000
Rent	50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Life insurance premium	24,000
		Motor car (acquired in Jan. 2024 by A/c payee cheque)	4,25,000
		Medical insurance premium (for self and wife)	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)	19,15,000
		Cash on hand and at Bank	
	62,50,000		62,50,000

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 & Fittings	₹ 60,000
Plant & Machinery	₹ 80,000
(Air-conditioners, Photocopiers, etc.)	
Computers	₹ 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.

Answer

Computation of total income of Mr. Rajiv for the assessment year 2024-25

Particulars	₹	₹	₹
Income from house property			
Self-occupied			
Annual value	Nil		
Less: Deduction under section 24(b) interest on housing loan			
50% of ₹ 88,000 = 44,000 but limited to Loss from self - occupied property	(30,000)		
Let out property		(30,000)	
Annual value (Rent receivable has been taken as the annual value in the absence of other information)	60,000		
Less: Deductions under section 24			
30% of Net Annual Value	(18,000)		
Interest on housing loan (50% of ₹ 88,000)	(44,000)	(2,000)	
Loss from house property			(32,000)
Profits and gains of business or profession			
Fees from professional services		59,38,000	
Less: Expenses allowable as deduction			
Staff salary, bonus and stipend	21,50,000		

Other administrative expenses	11,48,000		
Office rent	30,000		
Motor car maintenance (10,000 × 4/5)	8,000		
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)	Nil	(33,36,000)	
		26,02,000	
Motor car ₹ 4,25,000 × 7.5% × 4/5	25,500		
Books being annual publications @ 40%	8,000		
Furniture and fittings @ 10% of ₹ 60,000	6,000		
Plant and machinery @ 15% of ₹ 80,000	12,000		
Computer @ 40% of ₹ 50,000	20,000		
Computer (New) ₹ 30,000 @ 40% × 50%	6,000	(77,500)	25,24,500
Gross Total income			24,92,500
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of ₹ 1,44,000 is allowed as deduction since it is within the limit of ₹ 1,50,000		1,44,000	
Deduction under section 80D			
Medical insurance premium paid ₹ 18,000		18,000	(1,62,000)
Total income			23,30,500

Question 7

From the following details, compute the total income of Siddhant of Delhi for the A.Y. 2024-25:

Particulars	₹
Salary including dearness allowance	3,35,000
Bonus received	11,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation cost at the above flat	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2012, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000 @ 15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

- (a) Municipal taxes paid by Mr. Siddhant ₹ 4,300 (per annum)
- (b) House Insurance ₹ 860
- (c) He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
- (d) In the year 2017-18, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @ 19% per annum.
- (e) Siddhant received a gift of ₹ 25,000 each from four friends.
- (f) He contributed ₹ 50,000 to Public Provident Fund.

Answer

Computation of total income and tax liability of Siddhant For the A.Y. 2024-25

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		3,35,000
Bonus received		11,000
Value of perquisites		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		3,69,000
Less: Standard deduction under section 16(ia)		(50,000)
		3,19,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 × 12)	42,000	
Less: Municipal taxes paid	(4,300)	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 24		
(i) 30% of NAV	₹ 11,310	
(ii) Interest on loan from LIC @ 15% of ₹ 1,60,000 [See Note 2]	₹ 24,000	
		2,390
Income from speculative business		

Income from share speculation business	2,700	
Less: Loss from cotton speculation business	(4,200)	
Net Loss	(1,500)	
Net loss from speculative business has to be carried forward as it cannot be set off against any other head of income		
Income from Other Sources		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) Less: Exempt under section 10(32)	3,800 (1,500)	
(ii) Interest income earned from advancing money gifted to wife to be clubbed with the income of the assessee as per section 64(1)(iv)	2,300 5,700	
(iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)	1,00,000	1,08,000
Gross Total Income		4,29,390
Less: Deduction under section 80C		
Contribution to Public Provident Fund		(50,000)
Total Income		3,79,390

Notes:

- (1) It is assumed that the entire loan of ₹1,60,000 is outstanding as on 31.3.2024;
- (2) Since Siddharth's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

Question 8.

Ramdin working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2024:

- 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 received ₹ 50,000
- Gratuity ₹ 30,000
- Own Contribution to R.P.F. ₹ 30,000
- Employer's contribution to R.P.F. 20% of basic salary
- Interest credited in the R.P.F. account @ ₹ 15% p.a. ₹ 15,000
- Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.
- Music System purchased on 01.04.2023 by the company for ₹ 85,000 and was given to him for personal use.
- Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.
- Received interest of ₹ 5,860 on bank FDRs and interest of ₹ 6,786 (Net) from the debentures of Indian Companies.
- Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Medclaim Insurance policy for self and spouse.
- Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.
- Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute the total income thereon for the A.Y. 2024-25.

Answer

Computation of Total Income for the A.Y. 2024-25

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 15,000 × 12)		1,80,000
Dearness Allowance (₹ 12,000 × 12)		1,44,000
Commission on Turnover (0.5 of ₹ 50 lacs)		25,000
Bonus received		50,000
Gratuity (See Note 1)		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt (See Note 2)	(33,240)	2,760
Interest credited in recognized provident fund account @ 15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	(9,500)	5,500
Gift of gold ring worth ₹ 10,000 on 25th wedding anniversary by employer (See Note 3)		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		8,500

		4,55,760
Less: Standard deduction under section 16(ia)		(50,000)
		4,05,760
Profits and Gains of Business or Profession		
Lease of 2 light goods vehicles on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 7,500 p.m. for each of the two light goods vehicle (₹7,500 × 2 × 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest from debentures (₹ 6786 × 100/90)		
	recd. 90% : 6786	
	(+) T.D.S. 10% 754	
	7,540	13,400
Gross total Income		5,99,160
Less: Deductions under Chapter VI-A		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	(1,25,370)
Section 80D – Mediclaim Insurance		(22,500)
Section 80G (See Note 4)		(10,600)
Total Income		4,40,690

Notes:

- Gratuity received during service is fully taxable.
- Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)

$$= 12\% \text{ of } (\text{₹ } 1,80,000 + (50\% \text{ of } \text{₹ } 1,44,000) + \text{₹ } 25,000)$$

$$= 12\% \text{ of } 2,77,000 = \text{₹ } 33,240$$
- An alternative view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No. 15/2001 dated 12.12.2001 that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,10,760.

4. Deduction under section 80G is computed as under:

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Gross Total Income of 4,51,290 i.e. ₹ 45,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Gross Total Income = Gross Total Income – Deductions under section 80C and 80D = ₹ 5,99,160 – ₹ 1,47,870 = ₹ 4,51,290.

HOMEWORK PROBLEMS

Assume that assessee has opted out of the default tax regime under 115BAC

Question 1

Mr. Venus provides the following details for the financial year 2023-24:

- | | |
|---|---------------|
| (i) Salary from HNL Ltd. | ₹ 50,000 p.m. |
| (ii) Interest on FD with SBI (Net of TDS) | ₹ 72,000 |
| (iii) Long-term capital loss of A.Y. 2018-19 | ₹ 96,000 |
| (iv) Long term capital gain | ₹ 75,000 |
| (v) Loss of minor son ₹ 90,000 computed in accordance with the provisions of Income-tax Act, 1961. Mr. Venus transferred his own house to his minor son without adequate consideration few years back and minor son let it out and suffered loss. | |
| (vi) Loss of his wife's business (She carried business with funds which Mr. Venus gifted to her) ₹ (2,00,000). | |

You are required to compute the taxable income of Mr. Venus for the A.Y. 2024-25.

Question 2

Mrs. Ann provides the following information for the financial year ending 31.03.2023. Compute her total income and tax payable thereon for the A.Y. 2024-25 as per the Income-tax Act 1961.

Income/Receipts:

- (1) Salary from M/s. Prominent Technologies - ₹ 60,000 p.m.
- (2) She is in receipt of HRA, ₹ 15,000 p.m. and educational allowance of ₹ 1,500 p.m. for all the three of her children.
- (3) She bought a light truck on 01-08-2023 and has been letting it on hire. She does not maintain books of account for this business. But she declares for income-tax purpose, that she is earning a net income after all expenses of ₹ 11,000 p.m. from this business.
- (4) She received ₹ 8,500 as interest on Post Office Savings Account.
- (5) She received ₹ 25,000 as interest from Company Deposits.
- (6) Amounts withdrawn from National Savings Scheme, 1992 (Principal ₹ 20,000 & Interest ₹ 35,000)

Expenses / Payments:

- (1) Interest payable to bank ₹ 1,000 p.m. on loan for the purchase of truck.
- (2) Total interest paid to bank for loan borrowed for investing in company deposits is ₹ 5,000.
- (3) Rent paid for residence is ₹ 18,000 p.m.

- (4) Tuition fees paid for the year 2023-24 for her three children is ₹ 50,000, ₹ 30,000 and ₹ 20,000, respectively, to educational institution situated in India.
- (5) Deposit in 5 years Post Office Recurring Deposit Scheme ₹ 50,000.
- (6) Medical insurance premium for her and for her husband is ₹ 30,000 (paid by cheque) and ₹ 25,000 (paid by cash), respectively.

Question 3

Mr. Vishal is a resident individual. His Profit & Loss A/c for the year ended 31st March, 2024 is given below:

Particulars	₹	Particulars	₹
To Staff Salary	3,57,500	By Gross profit	13,55,500
To Office Rent	78,000	By Interest on Post Office Monthly Income scheme	98,400
To Administrative Expenses	2,14,000	By Bank F.D. interest (Net of TDS ₹ 7,000)	63,000
To Income-tax	1,60,000	By Rent (on let out property)	66,000
To Depreciation	67,500	By Winning from lotteries (Net of TDS ₹ 7,500)	17,500
To Net Profit	7,23,400		
	16,00,400		16,00,400

Following further information is given to you:

- (i) He deposited ₹ 1,50,000 into his PPF A/c on 27-03-2024.
- (ii) He received annual salary of ₹ 1,20,000 and annual Commission of ₹ 60,000 from a partnership firm in the capacity of working partner. It is fully chargeable to tax u/s 28(v).
- (iii) Received pension of ₹ 72,500 from LIC of India.
- (iv) Paid medical insurance premium of ₹ 26,850. The medical insurance was for self. Mr. Vishal is not a senior citizen.
- (v) Life Insurance Premium of ₹ 25,000 was paid on the policy standing in the name of his wife Mrs. Sujatha.
- (vi) Administrative expenses include ₹ 5,000 being municipal tax on let out property.
- (vii) Depreciation eligible as per the Income-tax Act, 1961 amounts to ₹ 57,000.

Compute the total income of Mr. Vishal for the Assessment year 2024-25.

Question 4

Mr. A, has furnished the following particulars relating to his house properties:

Particulars	House-I Self-occupied	Let-out
Municipal valuation	60,000	1,20,000
Fair rent	90,000	1,50,000
Standard rent	75,000	90,000
Actual rent p.m.	-	9,000
Municipal taxes paid	6,000	12,000
Interest on capital borrowed	70,000	90,000

Loan for both houses were taken on 01.04.2010. House-II remained vacant for 4 months. Besides the above two houses, A has inherited during the year an old house from his grandfather. Due to business commitments, he sold the house immediately for a sum of ₹ 250 lakhs. The house was purchased in 1980 by his grandfather for a sum of Rs. 2 lakhs. However, the FMV as on 01.04.2001 was ₹ 20 lakhs. With the sale proceeds, A purchased a new house in March, 2024 for a sum of ₹ 100 lakhs and the balance was used in his business.

The other income particulars of Mr. A besides the above are as follows (A.Y. 2024-25)

Business loss	₹ 2 lakhs
Income from other sources (Fixed Deposit interest)	₹ 1 lakh
Deposit made during the year in PPF A/c	₹ 1,00,000
Cost inflation index (F.Y. 2023-24)	317

Compute the total income of Mr. A who is a resident senior citizen and his tax liability for the A.Y. 2024-25.

Question 5

From the following particulars furnished by Mr. X for the year ended 31-03-2024, you are requested to compute his total income and tax payable for the A.Y. 2024-25.

- Mr. X retired on 31-12-2023 at the age of 58, after putting in 25 years and 9 months of service, from a private company at Mumbai.
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
- On retirement, he was paid a gratuity of ₹ 3,50,000. He was not covered by the payment of Gratuity Act. His average salary in this regard may be taken as ₹ 24,500. 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 ₹ 3,15,000 was received by him in this regard. His average salary may be taken as ₹ 24,500. Employer allowed 30 days leave p.a.
- (e) After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period up to 31-03-2024.
- (f) Mr. X has invested ₹ 62,500 in PPF & ₹ 37,500 in NSC.

Question 6

- (1) Mr. Anant owns a property consisting of two blocks of identical size. The 1st block is used for business purposes. The other block has been let-out from 01-04-2023 to his cousin for ₹ 10,000 p.m. The cost of construction of each block is ₹ 5 lakhs (fully met from bank loan), rate of interest on bank loan is 10% p.a. The construction was completed on 31-03-2023. During the year ended 31-03-2024, he had to pay a penal interest of ₹ 2,000 in respect of each block on account of delayed payments to the bank for the borrowings. The normal interest paid by him in respect of each block was ₹ 42,000. Principal repayment for each block was ₹ 23,000 made at the end of the year. An identical block in the same neighbourhood fetches a rent of ₹ 15,000 p.m. Municipal tax paid in respect of each block was ₹ 12,000.
- (2) The income computed in respect of business prior to adjustment towards depreciation on any asset is ₹ 2,20,000. Depreciation on equipments used for business is ₹ 30,000.
- (3) On 23-03-2024, he sold shares of B Ltd., a listed share in BSE for ₹ 2,30,000. The share had been purchased 10 months back for ₹ 1,80,000. STT paid at the time of sale may be taken as ₹ 220.
- (4) Brought-forward business loss of a business discontinued on 12-01-2023 is ₹ 80,000. This loss has been determined in pursuance of a return of income filed in time and the current year is the seventh year.
- (5) The following payments were also made by him during the year:
 - (a) LIP of ₹ 20,000 on his life and ₹ 12,000 for his son aged 22, engaged as a software engineer and drawing salary of ₹ 25,000 p.m.
 - (b) Medclaim premium of ₹ 6,000 for himself and ₹ 5,000 for above son. The premiums were paid by cheque.

You are required to compute the total income for the A.Y. 2024-25. The various heads of income should be properly shown. Ignore the interest on bank loan for the period prior to 01-04-2023, as the bank had waived the same.

Question 7

Shri Raman (age 61 years) gifted a building owned by him to his wife Smt. Raman on 01-10-2023. The building fetched a rental income of ₹ 10,000 p.m. throughout the year. Municipal tax for the first half-year of ₹ 5,000 was paid in June 2023 and the municipal tax for the second half-year was not paid till 30-09-2024. Incomes of Shri Raman & Smt. Raman other than income from house property are given below.

Assessee	Business Income	Capital Gain	Other Sources
Shri Raman	1,00,000	50,000 (long-term)	1,50,000
Smt. Raman	(75,000)	2,00,000 (short-term)	50,000

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

Compute the total income of Shri Raman & Smt. Raman taking into account income from property given above and also compute their income tax liability for the A.Y. 2024-25.

Question 8

Mr. Deepak (aged 45 years) owned 6 light goods vehicles as on 01-04-2023. He acquired 2 more light goods vehicles on 01-07-2023. He is solely engaged in the business of plying goods vehicles on hire since F.Y. 2014-15.

He did not opt for presumptive provisions contained u/s 44AE for the F.Y. 2022-23 (i.e. last year). Therefore, his books were audited u/s 44AB & the return of income for the F.Y. 2022-23 was filed on 05-08-2023.

He has unabsorbed depreciation of ₹ 70,000 & business loss of ₹ 1,00,000 for the F.Y. 2022-23.

Following further information is provided to you:

- He deposited ₹ 20,000 for a period of 10 years with Bank of India in the name of his son.
- He paid medical insurance premium amounting to ₹ 28,000 by means of bank demand draft for his parents (both aged above 60 years).
- He paid premium on life insurance policy of his married daughter ₹ 25,000. The policy was taken on 01-04-2017 & the capital sum assured was ₹ 2,00,000.
- Repaid principal of ₹ 40,000 & interest of ₹ 15,000 to Canara Bank towards the education loan taken for his son, who completed B.E. two years ago. He is employed after completion of his studies.

Assuming that, Mr. Deepak has opted for presumptive provision contained u/s 44AE of the Income Tax Act, 1961 for the F.Y. 2023-24. Compute the total income of Mr. Deepak for the A.Y. 2024-25.

Question 9

Dr. Chatterjee is a medical practitioner. As on 1st January, 2023 his age is 59 years. The Receipts & Payments A/c for the F.Y. 2023-24 is as under:

Receipts	₹	Payments	₹
Balance b/f	10,000	Purchase of Commercial Vehicle (before 30-09-2023)	4,00,000
Receipt from Sale of Medicines	2,50,000	Domestic Drawings	2,50,000
Consultation fee	50,000	Deposit in Bank for 5 years	1,50,000
Visiting Fee	2,00,000	Surgical Instruments Purchased (before 30-09-2023)	50,000
Lecture Fees	5,000	Instalment of Loan Paid (Including Interest - Rs. 22,333)	1,21,000
Family Pension	2,80,000	Medical Insurance Premium	32,000
Savings Bank Interest	1,000	Instalment of Housing Loan Principal - Rs. 48,000)	1,08,000
Loan from Bank	3,00,000	Advance Tax Paid	20,000
Share of Profits from HUF	50,000	Purchase of Medicine	47,000
Agricultural Income	1,00,000	Payment for Medical Journal	5,000
Income from Lottery (Net of TDS @ 30%)	35,000	Vehicle Expenses	50,000
		Balance c/f	48,000
	12,81,000		12,81,000

Other relevant information:

- (1) He resides in his own house which was constructed in 1998 with a loan from LIC Housing of ₹ 10,00,000 out of which ₹ 6,00,000 was still due. He got it refinanced from SBI on 01.04.2022 @ 10%. One-fourth portion of the house is used for clinic purposes.
- (2) He invested in term deposit ₹ 1,50,000 in Bank of Baroda on 01.07.2023 for a period of 5 years in the name of his minor daughter @ 9% interest p.a.
- (3) He purchased a commercial vehicle on 1st July 2023 at ₹ 4,00,000. A loan of ₹ 3,00,000 was taken to buy the vehicle. One-fourth use of vehicle is estimated to be personal.
- (4) He paid medical insurance premium for himself of ₹ 16,000 and for mother ₹ 16,000. His mother is dependent on him.
- (5) He got his share from HUF's income of ₹ 50,000.

Compute the total income of Dr. Chatterjee for the A.Y. 2024-25.

Question 10

Mr. Karthik, a resident individual aged 45, furnishes the following information pertaining to the year ended 31-03-2024:

He is a partner in Badrinath & Co. He has received the following amounts from the firm:

- | | |
|---|------------|
| (a) Interest on capital @ 15% | ₹ 3,00,000 |
| (b) Salary as working partner @ 1% of firm's sales
(allowed fully to the firm) | ₹ 90,000 |

He is also engaged in a business of manufacturing wheat flour from wheat. The Profit & Loss A/c pertaining to this business is as under:

To	₹	By	₹
Salary	1,20,000	Gross Profit	12,50,000
Bonus paid	48,000	Interest on Bank FD	45,000
Motor Car Expenses	50,000	(Net of TDS 5,000)	
Machinery Repairs	2,34,000	Agricultural Income	60,000
Advance Tax	70,000	Pension from LIC Jeevan Dhara	24,000
Depreciation on:			
Motor Car	3,00,000		
Plant & Machinery	1,25,000		
Net Profit	4,32,000		
	13,79,000		13,79,000

Opening WDV of the Assets are as under:

Particulars	₹
Motor Car	3,00,000
Plant & Machinery (Used during the year for 170 days)	6,50,000
Additions to Plant & Machinery:	
New purchased on 23-09-2023	2,00,000
New purchased on 12-11-2023	3,00,000
Old purchased on 12-04-2023	1,25,000

(All assets added during the year were put to use immediately after purchase).

One-fifth of the Motor Car Expenses are towards estimated personal use of the assessee. In March, 2021, he had sold a house at Chennai. Arrears of rent relating to this house amounting to ₹ 75,000 was received in February, 2024.

Details of his Savings and Investments are as under:

Particulars	₹
Life Insurance premium for policy in the name of his major son employed in LMN Ltd. at a salary of ₹ 6 lakhs p.a. (Sum assured ₹ 2,00,000) (Policy taken on 01.07.2016)	50,000
Contribution to Pension Fund of National Housing Bank	70,000
Medical insurance premium for his father aged 70, who is not dependent on him	32,000

You are required to compute the total income of Mr. Karthik for the A.Y. 2024-25.

Question 11

Mr. Pritam, aged 54 years, provides the following information for the year ending 31-03-2024:

Particulars	₹
Rent from vacant site let on lease	1,12,000
Rent from House Property at Delhi	20,000 p.m.
Turnover from retail trade in grains (No books of accounts are maintained)	24,37,500
Income from salary (computed)	40,000
Purchase of 10,000 unlisted shares of X Co. Ltd. on 01.01.2014. He received a 1:1 bonus on 01-01-2015.	1,00,000
Sale of 5,000 bonus shares in September, 2023	2,20,000
Brought forward business loss relating to discontinued textile business of Mr. Pritam relating to the A.Y. 2022-23.	1,97,500
Brought forward depreciation relating to discontinued textile business of Mr. Pritam	1,50,000

Pritam contributed ₹ 30,000 to National Children's Fund & ₹ 40,000 to a charitable trust enjoying exemption u/s 80G.

Compute the Total Income & the Tax Liability of Mr. Pritam for the A.Y. 2024-25.

Question 12

Mr. Ram, who does not maintain books of account for the year ended 31.3.2023, requests you to compute his total income for the A.Y. 2024-25 from the following details:

- (i) Basic Salary : ₹ 20,000 p.m.
CCA : ₹ 1,000 p.m.
HRA : ₹ 5,000 p.m.

- (ii) Ram resides in Chennai, paying a rent of ₹ 6,000 p.m.
- (iii) Ram is paid an education allowance of ₹ 500 p.m. per child for all the three of his children. Actual expenses (tuition fees only) amounts to ₹ 15,000, ₹ 10,000 and ₹ 5,000 respectively.
- (iv) He bought a goods vehicle on 07.06.2023 and has been letting it on hire from the same date. He declares an income of ₹ 34,900 from the same.
- (v) Interest from company deposits is ₹ 15,000 and bank interest from saving bank account is ₹ 5,000.
- (vi) Interest is payable on bank loans availed for buying the truck and making company deposits as follows:

Purpose	Date of Loan	Amount	Interest rate
Truck purchase	01.04.2023	5,00,000	10% p.a.
Company deposit	01.10.2023	1,00,000	9% p.a.

- (vii) Loss carried forward arising from speculating in shares during the preceding previous year and eligible for set-off is ₹ 1,00,000.
- (viii) Ram has invested ₹ 12,000 in notified equity linked saving scheme of UTI, ₹ 52,000 in PPF, ₹ 9,000 as premium on life insurance policy taken on 31.07.2013 on his own life (sum assured ₹ 40,000) and ₹ 15,000 towards pension fund of LIC.

Question 13

Mr. Rahul, an assessee aged 61 years, gives the following information for the P.Y. ended 31-03-2024:

Sr. No.	Particulars	₹
1.	Loss from profession	1,05,000
2.	Capital loss on the sale of property (short-term)	55,000
3.	Capital gains on sale of unlisted shares (long-term)	2,05,000
4.	Loss in respect of self-occupied property	15,000
5.	Loss in respect of let out property	30,000
6.	Share of loss from firm	1,60,000
7.	Income from card games	55,000
8.	Winnings from lotteries	1,00,000
9.	Loss from horse races in Mumbai	40,000
10.	Medical Insurance premium paid by cheque	18,000

Compute the total income of Mr. Rahul for the A.Y. 2024-25

HOMEWORK SOLUTIONS

Answer 1

Computation of Taxable Income of Mr. Venus for the A.Y. 2024-25

Particulars	₹	₹
Salaries		
Income from Salary (₹ 50,000 × 12)	6,00,000	
Less: Standard Deduction u/s 16(ia)	(50,000)	
	5,50,000	
Less: Loss from house property in respect of which Mr. Venus is the deemed owner to be set off against his salary income as per section 71(1) - [Note 1]	(90,000)	4,60,000
Capital Gains		
Long-term capital gain	75,000	
Less: Brought-forward long-term capital loss of A.Y. 2018-19 set-off against current year long-term capital gain as per section 74(1) & (2) - [Note 2]	(75,000)	Nil
Balance long-term capital loss of ₹ 21,000 [₹ 96,000 (-) ₹ 75,000] of A.Y. 2018-19 to be carried-forward to A.Y. 2026-27 - [Note 2]		
Income from Other Sources		
Interest on fixed deposit with SBI (₹ 72,000 × 100/90)	80,000	
Less: Business loss incurred by wife includible in Mr. Venus's total income to be set-off against interest income as per section 71(1) - [Note 3 & 4]	(80,000)	Nil
Balance business loss of ₹ 1,20,000 [₹ 2,00,000 (-) ₹ 80,000] to be carried-forward to A.Y. 2025-26		
Taxable Income		4,60,000

Notes:

- (1) As per section 27(i), Mr. Venus is the deemed owner of the house transferred to his minor son without adequate consideration. Hence, the income from house property would be assessable in Mr. Venus's hands. Since there is a loss from house property transferred to minor son without adequate consideration, Mr. Venus can set-off the same against salary income, since he is the deemed owner of such property.
- (2) As per section 74(1) and 74(2), brought forward long-term capital loss can be set-off only against long-term capital gains. Unabsorbed long-term capital loss can be

carried forward for a maximum of eight assessment years (upto A.Y. 2026-27, in this case) for set-off against long-term capital gains.

- (3) As per section 64(1)(iv), income from funds gifted to spouse by an individual and invested in business by the spouse is includible in the hands of the individual. As per Explanation 2 to section 64, income includes “loss”. Hence, in the given case, loss arising out of the business carried on by Mr. Venus’s wife is to be included in the income of Mr. Venus, as she has carried on business with the funds gifted to her by Mr. Venus.
- (4) As per section 71(2A), business loss cannot be set-off against salary income. However, the same can be set-off against income from other sources (consisting of interest on fixed deposit).

Answer 2

Computation of total income of Mrs. Ann for the A.Y. 2024-25:

Particulars	₹	₹
Income from Salary		
Basic Salary (₹ 60,000 × 12)		7,20,000
HRA (₹ 15,000 × 12)	1,80,000	
Less: Exempt u/s 10(13A) - [Note 1]	(1,44,000)	36,000
Education Allowance (₹ 1,500×12)	18,000	
Less: Exempt u/s 10(14) @ ₹ 100 p.m. per child for max. 2 children	(2,400)	15,600
Gross Taxable Salary		7,71,600
Less: Deduction u/s 16(ia)		(50,000)
	(A)	7,21,600
Profits and gains from business or profession		
Income from the business of letting on hire a truck u/s 44AE - [Note 2]		
	(B)	88,000
Income from Other Sources		
Interest on Post Office Savings Bank Account	8,500	
Less: Exempt u/s 10(15)	(3,500)	5,000
Interest from company deposits	25,000	
Less: Deduction u/s 57 in respect of interest on loan paid for investing in company deposits	(5,000)	20,000
Interest on National Savings Scheme, 1992		35,000
	(C)	60,000

Gross Total Income (A + B + C)		8, 69,600
Less: Deductions under Chapter VI-A		
Section 80C:		
Tuition fees paid for two children [most favourable to Mrs. Ann being ₹ 50,000 (+) ₹ 30,000]	80,000	
Deposit in 5 years Post Office Recurring Deposit Scheme does not qualify for deduction u/s 80C	Nil	(80,000)
Section 80D:		
Medical Insurance Premium paid by cheque for insurance of self would qualify for deduction upto a maximum of ₹ 25,000 [Note 3]		(25,000)
Section 80TTA:		
Interest from Post Office Savings Account - [Note 4]		(5,000)
Total Income		7,59,600

Computation of tax liability of Mrs. Ann for the A.Y. 2024-25

Tax on ₹ 7,59,600	
[₹ 51,920 (20% of ₹ 2,59,600) + ₹ 12,500]	64,420
Add: Health & Education cess @ 4%	2,577
Tax Payable	66,997
Rounded-off u/s 288B	67,000

Notes:

- (1) HRA is exempt to the extent of the least of the following u/s 10(13A):
 - (a) 50% of salary i.e. 50% of ₹ 7,20,000 = ₹ 3,60,000 (in case Mrs. Ann resides in Delhi, Mumbai, Calcutta or Chennai) (or) 40% of salary i.e., 40% of ₹ 7,20,000 = ₹ 2,88,000 (in case Mrs. Ann resides in any other place)
 - (b) Excess of rent paid over 10% of salary = (₹ 18,000 – ₹ 6,000) × 12 = ₹ 1,44,000
 - (c) Actual HRA received = ₹ 15,000 × 12 = ₹ 1,80,000

Least of the above i.e. ₹ 1,44,000 is exempt u/s 10(13A).
- (2) In the case of a person owning not more than 10 vehicles at any time during the P.Y., estimated income from each vehicle will be deemed to be ₹ 7,500 for every month or part of the month during which such vehicle is owned by the assessee in the P.Y. or an amount claimed to have been actually earned from such vehicle, whichever is higher - [Section 44AE].
In this case, since the assessee declares a higher amount of ₹ 11,000 p.m. as the net income actually earned by her from letting on hire truck, such amount will be

considered as income u/s 44AE.

Interest paid @ ₹ 1,000 p.m. is not deductible, since u/s 44AE, all deductions as per sections 30 to 38 are deemed to have been claimed & allowed. Truck was plied for the period 01.08.2023 to 31.03.2024 for 8 months.

Therefore, in this case, income u/s 44AE is ₹ 11,000 × 8 = ₹ 88,000.

- (3) Medical Insurance Premium paid in cash for husband amounting to ₹ 25,000 shall not qualify for deduction u/s 80D. Hence, the same is ignored.
- (4) Interest upto ₹ 3,500 on post office savings account is exempt u/s 10(15). The balance interest of ₹ 5,000 would be included under the head “Other Sources” and shall form part of GTI.

However, the same would qualify for deduction u/s 80TTA, since interest upto ₹ 10,000 from, inter alia, post office savings account qualifies for deduction thereunder.

Answer 3

Computation of total income of Mr. Vishal for the A.Y. 2024-25:

Particulars	₹	₹	₹
Income from House Property:			
Gross Annual Value - Rent received - (Note 1)		66,000	
Less: Municipal taxes paid		(5,000)	
Net Annual Value		61,000	
Less: Deduction u/s 24 @ 30% of NAV		(18,300)	42,700
Profits and gains of business or profession:			
Net Profit as per Profit & Loss Account		7,23,400	
Add: Expenses not allowable			
Income-tax	1,60,000		
Depreciation charged	67,500		
Municipal Taxes paid on let out property	5,000	2,32,500	
Total		9,55,900	
Less: Income not forming part of business income			
Interest on Post Office Monthly Income scheme	98,400		
Interest on Bank Fixed Deposit	63,000		
Rent received	66,000		
Winning from lotteries	17,500	(2,44,900)	
		7,11,000	
Less: Depreciation as per Income-tax Act, 1961		(57,000)	
		6,54,000	

Add: Salary received from partnership firm – (Note 2)	1,20,000		
Commission received from partnership firm – (Note 2)	60,000	1,80,000	8,34,000
Income from other sources:			
Interest on Post Office Monthly Income scheme		98,400	
Interest on Bank Fixed Deposit [₹ 63,000 (+) ₹ 7,000]		70,000	
Winning from lotteries [₹ 17,500 (+) ₹ 7,500]		25,000	
Annuity pension received from LIC of India		72,500	2,65,900
Gross Total income			11,42,600
Less: Deductions under Chapter VI-A			
Section 80C:			
Deposit in PPF		1,50,000	
Life insurance premium paid for his wife		25,000	
Total Qualifying Amount u/s 80C		1,75,000	
Restricted to Maximum		1,50,000	(1,50,000)
Section 80D			
Mediclaim premium of ₹ 26,850 paid for insurance on self			
However, the deduction is restricted to ₹ 25,000			(25,000)
Total income			9,67,600

Notes:

- (1) Rent received is assumed to be the gross annual value of the let-out property in absence of any information regarding municipal value, fair rental value and standard rent.
- (2) Any salary, bonus, commission or remuneration, by whatever name called, due to or received by a partner of a firm shall not be treated as salary but it shall be treated as income from business or profession for the purposes of section 28.

Answer 4

Computation of Total Income and Tax liability of Mr. A for A.Y. 2024-25:

Particulars	₹	₹
Income from house property - (WN 1)		
House-I	(70,000)	
House II	(48,000)	(1,18,000)
Profits and gains from business (given)		(2,00,000)
Capital gains - (WN 2)		
Long-term capital gain		1,30,00,000
Income from other sources		
Interest on Bank Fixed Deposits		1,00,000
Gross Total Income		1,27,82,000
Less: Deduction under Chapter VI-A:		
Section 80C:		
Deposit in PPF A/c		(1,00,000)
Total Income		1,26,82,000

Computation of tax liability of Mr. A for A.Y. 2024-25:

Tax on total income other than long term capital gain		Nil
Tax on long-term capital gain of Rs. 1,23,82,000 (after adjusting the house property & business losses and unexhausted basic exemption limit) [i.e. Rs. 1,30,00,000 (-) Rs. 1,18,000 (-) Rs. 2,00,000 (-) Rs. 3,00,000] @ 20% - (Refer Note below)		24,76,400
Tax on Total Income		24,76,400
Add: Surcharge on Rs. 24,76,400 @ 15%		3,71,460
Tax on Total Income including surcharge		28,47,860
Add: Health & Education Cess @ 4%		1,13,914
Total Tax Liability		29,61,774
Rounded-off u/s 288B		29,61,770

Note:

It has been assumed that the loss from house property and business loss have been set-off fully against long term capital gains. Therefore, Rs. 1,00,000 relating to section 80C PPF investment is deducted against the income under the head "Other Sources". Hence, the taxable income represents long term capital gains only and the tax liability is computed accordingly.

Working notes:

(1) Calculation of income from house property:

House - I: Self occupied	₹
Net Annual Value	Nil
Less: Interest as per section 24(b)	(70,000)
Loss from House-I	(70,000)
House-II: Let out	₹
Gross Annual Value (Rs. 9,000 x 8)	72,000
Less: Municipal taxes	(12,000)
Net Annual Value (NAV)	60,000
Less: Deductions u/s 24	
30% of NAV	(18,000)
Interest on borrowed capital	(90,000)
Loss from House-II	(48,000)

Note:

Interest on capital borrowed will be allowed in full for let out properties. As per section 23(1)(c), where the property or any part of the property is let and was vacant during the whole or any part of the P.Y. and owing to such vacancy the actual rent received or receivable by the owner in respect thereof is less than the expected rent (in this case, standard rent of Rs. 90,000), then, the actual rent received or receivable would be the Gross Annual Value of the property. In this case, the actual rent received (i.e. Rs. 72,000) is less than the expected rent (i.e. Rs. 90,000) on account of vacancy and therefore, the actual rent received is taken as the Gross Annual Value.

(2) Computation of Capital Gains:

Particulars	₹
Full Value of Consideration (Sale Proceeds)	2,50,00,000
Less: Transfer Expenses	(Nil)
Net Consideration	2,50,00,000
Less: Indexed cost of acquisition – [Rs. 20,00,000 (x)331/331] - (Refer Note below)	(20,00,000)
Gross long-term capital gains	2,30,00,000
Less: Exemption u/s 54	(1,00,00,000)
Taxable long-term capital gain	1,30,00,000

Note:

As per the definition of the indexed cost of acquisition under clause (iii) of Explanation to section 48, indexation benefit will be available only from the P.Y. in which Mr. A

first held the asset i.e. P.Y. 2023-24. Since Mr. A sold the asset in the same year in which it was held by him, cost of acquisition and indexed cost of acquisition would be same.

As per the view expressed by Bombay High Court, in the case of CIT v. Manjula J. Shah, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is taken, the indexed cost of acquisition would be **Rs. 66,20,000** ($20,00,000 \times 331/100$) and gross long-term capital gain would be **Rs. 183,80,000** Therefore, after exemption u/s 54 the taxable long-term capital gains would be **Rs. 83,80,000**.

Answer 5

Computation of Total Income of Mr. X for the A.Y. 2024-25:

Particulars	₹	₹
Income from Salary		
Basic salary (Rs. 25,000 x 9 months)		2,25,000
House Rent Allowance (Rs. 6,000 x 9 months)	54,000	
Less: Exemption u/s 10(13A) - (Note 1)	(36,000)	18,000
Gratuity Received	3,50,000	
Less: Exemption u/s 10(10) - (Note 2)	(3,06,250)	43,750
Leave Encashment	3,15,000	
Less: Exemption u/s 10(10AA) - (Note 3)	(2,45,000)	70,000
Gross Taxable Salary		3,56,750
Less: Standard Deduction u/s 16(ia)		(50,000)
Net Taxable Salary		3,06,750
Profits and gains from business or profession		
(Business loss of Rs. 80,000 to be carried forward as the same cannot be set-off against Salary Income)		Nil
Gross Total income		3,06,750
Less: Deduction u/s 80C:		
Investment in PPF	(62,500)	
Investment in NSC	(37,500)	(1,00,000)
Total Income		2,06,750

Note:

(1) **As per section 10(13A), HRA will be exempt to the extent of least of the following:**

- (a) HRA actually received (Rs. 6,000 × 9) = Rs. 54,000
- (b) Rent paid in excess of 10% of salary (Rs. 6,500 - Rs. 2,500) × 9 months = Rs. 36,000
- (c) 50% of salary = Rs. 1,12,500

(2) **Gratuity exempt u/s 10(10), shall be least of the following amounts:**

- (a) Actual amount received = Rs. 3,50,000
- (b) Half month's average salary for each year of completed service i.e. (1/2 × Rs. 24,500 × 25) = Rs. 3,06,250
- (c) Statutory Limit = Rs. 20,00,000

(3) **Leave encashment is exempt up to the least of the following:**

- (a) Actual Amount Received = Rs. 3,15,000
- (b) 10 months' average salary i.e. (Rs. 24,500 × 10) = Rs. 2,45,000
- (c) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (See Note below) = Rs. 3,06,250
- (d) Statutory Limit = Rs. 25,00,000

Note:

Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement (30 days/year × 25) 750 days

Less: Leave taken/availed (15 days/year × 25) 375 days

Leave Credit at the time of his retirement 375 days

Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement = (375 days/30 days × Rs. 24,500) = Rs. 3,06,250.

Answer 6

Computation of Income for A.Y. 2024 - 2025

Particulars	₹	₹	₹
Income from House Property - [Note 1]			
House block 2 let-out (higher of fair rent and rent receivable)		1,80,000	
Less: Municipal tax paid		(12,000)	

Net annual value (NAV)		1,68,000	
Less: Deductions u/s:			
24(a): Standard Deduction @ 30% of NAV	(50,400)		
24(b): Interest on housing loan @ 10% on Rs. 5,00,000	(50,000)	(1,00,400)	67,600
Profits & Gains from Business or Profession - [Note 2]			
Income prior to adjustment for depreciation	(30,000)	2,20,000	
Less: Depreciation on equipments used for business	(50,000)	(80,000)	
Less: Depreciation on building Rs. 5,00,000 @ 10%			
Less: Set-off of b/f business loss relating to discontinued business - [Note 3]		1,40,000	
		(80,000)	60,000
Capital Gains - [Note 4]			
Short-term capital gains from sale of listed shares			
Full Value of Consideration		2,30,000	
Less: Cost of Acquisition		(1,80,000)	50,000
Gross Total Income			1,77,600
Less: Deduction u/s 80C in respect of LIP Rs. 32,000 & housing loan repayment in respect of 2nd block Rs. 23,000 (subject to maximum Rs. 1,50,000)		(55,000)	
Less: Deduction u/s 80D in respect of mediclaim premium paid for self (subject to maximum Rs. 25,000)		(6,000)	(61,000)
		Total income	1,16,600

Note:

(1) Income from House Property:

- (i) The annual value of the house property which is used for business would not fall under the head 'House Property'. Therefore, the annual value of the 1st block is not chargeable to tax under the head 'House Property'. However, depreciation there on @ 10% has been claimed while computing the income under the head 'PGBP'.

- (ii) As regards the 2nd block, the sum for which the property may be reasonably expected to be let is Rs. 15,000 p.m. The Gross Annual Value (GAV) of the block is the higher of fair rent (i.e. Rs. 15,000 p.m.) or the actual rent received (i.e. Rs. 10,000 p.m.) Hence, the GAV of the 2nd block is Rs. 1,80,000 (i.e. Rs. 15,000 p.m.)
- (iii) U/s 24(b), interest on bank loan for construction of house is deductible. However, penal interest is not deductible. Interest due during the year in respect of the 2nd block is Rs. 50,000 (i.e. 10% of Rs. 5 lakhs), which is allowable as deduction u/s 24(b).

(2) Profits & Gains from Business or Profession:

Mr. Ashok can claim depreciation @ 10% on the building used by him for business purposes. The depreciation on the 1st block is Rs. 50,000 (being 10% of Rs. 5,00,000) and depreciation on equipments used for business is Rs. 30,000. Hence the depreciation allowable during the year is Rs. 80,000.

(3) Business Loss:

As per section 72, business loss relating to discontinued business is eligible for set-off.

(4) Short-term capital gains (STCG):

The listed shares have been sold and STT is paid, hence it is taxable at 15% as per section 111A. For the purpose of providing deduction under Chapter VI-A, the gross total income should be reduced by the STCG on listed shares. Further, this STT shall not be allowed while computing the capital gain on sale of such shares.

(5) Deductions u/s 80C and 80D:

Deduction u/s 80C can be claimed in respect of life insurance premium paid for major son, even though he is not dependent on the assessee. It is assumed 2nd block let-out to cousin was used for residential purpose and accordingly principal repayment was considered for deduction u/s 80C.

However, deduction u/s 80D cannot be claimed in respect of mediclaim premium paid for non-dependant son. Mediclaim premium paid for self of Rs. 6,000 is eligible for deduction.

Answer 7

Computation of Total Income & Tax Liability of Shri Raman for the A.Y. 2024-25:

Particulars	₹	₹
Computation of Total Income:		
Income from House Property (See Note below)		80,500
Business Income		1,00,000

Long-term capital gains		50,000
Income from Other Sources		1,50,000
Total Income		3,80,500
Computation of Tax Liability:		
Long-term capital gain of Rs. 50,000 @ 20%		10,000
Other Income of Rs. 3,30,500		
(Rs. 3,30,500 - Rs. 3,00,000) × 5%		1,525
Tax on Total Income		11,525
Less: Rebate u/s 87A (100% of Tax on Total Income i.e. Rs. 11,525 or Rs. 12,500, whichever is lower)		(11,525)
Net Tax liability		Nil

Computation of Total Income & Tax Liability of Smt. Raman for A.Y. 2024-25:

Particulars	₹	₹
Income from House Property (See Note below)		Nil
Short-term capital gains	2,00,000	
Less: Business loss	(75,000)	1,25,000
Income from Other Sources		50,000
Total Income		1,75,000
Tax liability - Since the total income of Smt. Raman is less than her basic exemption limit (i.e. Rs. 2,50,000), therefore, she is not liable to pay any tax.		Nil

Note:

As per section 27 Mr. Raman will be considered deemed owner of the house property and income will be computed in his hands as per L.O.P. provisions. Therefore, the rental income from building transferred by Shri Raman to his wife Smt. Raman without consideration on 01-10-2023 is computed & taxed in the hands of Shri Raman.

Computation of Income from House Property:

Particulars	₹	₹
	From 01.04.2023 to 30.09.2023	From 01.10.2023 to 31.03.2024
Gross Annual Value (Rs. 10,000 × 6 months) (Rental income taken as GAV in the absence of information relating to Municipal Value, Fair Rent and Standard Rent)	60,000	60,000

Less: Municipal Taxes (paid in June for first half year only)	(5,000)	(NIL)
Net Annual Value (NAV)	55,000	60,000
Less: Deduction u/s 24(a): Std. Deduction @ 30% of NAV	(16,500)	(18,000)
	38,500	42,000
Income from House Property of Smt. Raman to be computed in the hands of Shri Raman as per section 27.	42,000	-
Income from house property	80,500	-

Answer 8 **Computation of total income of Mr. Deepak for the A.Y. 2024-25**

Particulars	₹	₹
Income from business of plying goods vehicle - (Note 1)		6,75,000
Less: Brought forward business loss of F.Y. 2022-23 - (Note 2 & 3)		(1,00,000)
Gross Total Income		5,75,000
Less: Deduction under Chapter VI-A		
Section 80C:		
Life insurance premium for insurance of married daughter - (Note 5)	(20,000)	
Section 80D:		
Medical insurance premium paid for insurance of parents - (Note 6)	(28,000)	
Section 80E:		
Interest paid towards education loan taken for his son - (Note 7)	(15,000)	(63,000)
Total Income		5,12,000

Notes:

(1) Computation of Presumptive Income from business of plying goods vehicles u/s 44AE:

Particulars	Rs.
6 goods vehicles held throughout the year (Rs. 7,500×6×12)	5,40,000
2 goods vehicles held for 9 months (Rs. 7,500×2×9)	1,35,000
Presumptive Income as per 44AE	6,75,000

Note:

It is assumed that the goods vehicles owned by Mr. Deepak are other than heavy goods vehicles.

- (2) As per section 44AE, any deduction allowable under the provisions of sections 30 to 38 shall be deemed to have been already allowed. **Therefore, the unabsorbed depreciation of Rs. 70,000 shall not be allowed as a deduction since it is covered by section 32.**
- (3) Brought forward business loss of Rs. 1,00,000 shall be allowed as deduction, by virtue of section 72, as it is allowed to be carried forward for 8 A.Y.s following the A.Y. to which it relates, since the return for the A.Y. 2023-24 was filed before the due date specified u/s 139(1).
- (4) Fixed deposit kept with a scheduled bank in the name of son does not qualify for deduction u/s 80C.
- (5) Premium paid for insurance on the life of any child of the individual (whether married or not), qualifies for deduction u/s 80C. In respect of policies issued on or after 01-04-2012, only premium paid to the extent of 10% of capital sum assured qualifies for deduction u/s 80C. Therefore, out of the life insurance premium of Rs. 25,000 paid for insurance policy of married daughter, only Rs. 20,000 (being 10% of Rs. 2,00,000) is qualified for deduction u/s 80C.
- (6) Deduction is allowed u/s 80D for payment made for medical insurance of parents. Medical insurance premium paid for insuring the health of a person who is a senior citizen i.e. of age 60 years or more, qualifies for deduction u/s 80D, subject to a maximum of Rs. 50,000. Hence, deduction of Rs. 28,000 is provided to Mr. Deepak, as his parents are senior citizens.
- (7) It is only the payment of interest on education loan which qualifies for deduction u/s 80E. Deduction u/s 80E is allowed in respect of interest on loan taken for education of children of the individual even if they are not dependent. Principal repayment of the education loan is not eligible for deduction u/s 80E.

Answer 9

Computation of Income for A.Y. 2024 - 2025 of Mr. Chatterjee Resident Senior Citizen

Particulars	₹	₹	₹
Income from House Property:			
Annual value of self-occupied house		Nil	
Less: Interest on Housing Loan [Rs. 45,000 i.e. 3/4th of Rs. 60,000] (Restricted to Maximum Rs. 30,000)		(30,000)	(30,000)

Income from Profession:			
Sale of medicine	2,50,000		
Consultation fees	50,000		
Visiting fee	2,00,000	5,00,000	
Less: Expenses allowable from Professional Income:			
Medicine purchases	47,000		
Medical journal	5,000		
Vehicle expenses (3/4th)	37,500		
Interest on loan (3/4th)	16,750		
Interest on housing loan (1/4th)	15,000		
Depreciation on:	7,500		
Surgical instrument (15% of Rs. 50,000)	45,000	(1,73,750)	3,26,250
Vehicle (3/4th of 15% of Rs. 4,00,000)			
Income from Other Sources:			
Family Pension	2,80,000		
Less: Standard Deduction u/s 57 [33% of Rs. 2,80,000 or Rs. 15,000, whichever is lower]	(15,000)	2,65,000	
Lecture Fees		5,000	
Savings Bank Interest		1,000	
Interest on Bank FD in the name of minor daughter [Rs. 1,50,000 × 9% × 9/12]	10,125 (1,500)	8,625	
Less: Exempt u/s 10(32)		50,000	3,29,625
Winnings from Lottery			
Gross Total Income			6,25,875
Less: Deductions under Chapter VI-A:			
Section 80C:			
Repayment of housing loan (Rs. 48,000 × ¾)		(36,000)	
Section 80D:			
Medical Insurance Premium			
Own (Senior Citizen, hence fully allowed)	16,000		
Mother (Senior Citizen, hence fully allowed)	16,000	(32,000)	
Section 80TTB:			
After Interest on deposit in a saving account of bank		(1,000)	
Interest on bank F.D		(8625)	(77,625)
Total income			5,48,250

Note:

- (1) Since the residential house was constructed before 01-04-1999, the deduction for interest is restricted to Rs. 30,000.
- (2) Since 1/4th portion of house is used for business purposes, therefore, 1/4th share of interest paid is deductible while computing business income.
- (3) Agricultural income is exempt u/s 10(1) and share of income from HUF is exempt u/s 10(2).
- (4) Term deposit of Rs. 1,50,000 in the name of minor daughter does not qualify for deduction u/s 80C. Principal repayment of housing loan shall qualify for deduction u/s 80C. But, the qualifying amount u/s 80C would be only Rs. 36,000 (i.e. 3/4th of Rs. 48,000) and not the whole amount of Rs. 48,000 because only 3/4th portion is assessed under the head house property.
- (5) Depreciation on the portion of the house used for business purposes has not been provided since the written down value is not given in the question.

Answer 10

Computation of Total Income of Mr. Karthik for the A.Y. 2024-25:

Particulars	₹	₹	₹
Income from House Property:			
Arrears of rent received in respect of the Chennai House taxable u/s 25A - (Note 2)		75,000	
Less: Standard Deduction @ 30% u/s 24(a)		(22,500)	52,500
Profits & gains from Business or Profession:			
(a) Own business - (Note 1)			5,33,250
(b) Partnership Firm			
Interest on Capital - (Note 3)		2,40,000	
Salary as a working partner - (Note 3)		90,000	3,30,000
Income from Other Sources:			
(a) Pension from LIC Jeevan Dhara		24,000	
(b) Interest from Bank FD - (Gross)		50,000	74,000
Gross Total Income			9,89,750
Less: Deductions under Chapter VIA Section 80C:			

Life insurance premium for policy in the name of major son qualifies for deduction even though he is not dependent on the assessee. However, the same has to be restricted to 10% of sum assured i.e. 10% of Rs. 2,00,000.	20,000		
Contribution to pension fund of National Housing Bank	70,000		
Total Qualifying Amount u/s 80C; or Maximum Amount of Deduction u/s 80C	↓ 90,000 1,50,000	(90,000)	
Section 80D:			
Mediclaim insurance premium for father (senior citizen)	↓ 32,000 50,000	(32,000)	(1,22,000)
Maximum Amount of Deduction u/s 80D			
Total Income			8,67,750

Note:

(1) Computation of Income from Own Business:

Particulars	₹	₹
Net Profit as per Profit & Loss Account		4,32,000
Less: Items Credited to P&L A/c but not regarded as Business Income:		
Interest on bank FD (Net of TDS Rs. 5,000)	45,000	
Agricultural income	60,000	
Pension from LIC Jeevan Dhara	24,000	(1,29,000)
		3,03,000
Add: Items Debited to Profit & Loss Account to be Disallowed or to be Considered Separately:		
Advance Tax	70,000	
Depreciation on Motor Car	3,00,000	
Depreciation on Machinery	1,25,000	
Motor Car Expenses	10,000	5,05,000
		8,08,000
Less: Depreciation Computed as per Income Tax Rules (See Working Note)		(2,74,750)
Income from Own Business		5,33,250

- (2) As per section 25A, any arrears of rent recovered shall be chargeable to tax, after deducting a sum equal to 30% of such arrears, as income from house property in the year of receipt, whether or not the assessee remains the owner of the house property in the year of such recovery.
- (3) The income by way of interest on capital & salary of Mr. Karthik from the partnership firm, Badrinath & Co., in which he is a partner, to the extent allowed as deduction in the hands of the firm u/s 40(b), has to be included in the business income of the partner as per section 28(v). Accordingly, Rs.3,30,000 [i.e. Rs. 90,000 (Salary) + Rs. 2,40,000 (Interest @ 12%)] should be included in his business income.

Working Note:

Computation of Depreciation as per Income Tax Rules:

Particulars	₹	₹
Normal Depreciation on Motor Car:		
15% on Rs. 3,00,000	45,000	
Less: 1/5th for personal use	(9,000)	36,000
Normal Depreciation on Machinery:		
Opening WDV of the Block of Machinery	6,50,000	
Add: Additions in the Block during the P.Y. (used for > 180 days)	3,25,000	
Add: Additions in the Block during the P.Y. (used for < 180 days)	3,00,000	
	12,75,000	
Less: Sale Proceeds of the Machinery Sold during the P.Y.	(NIL)	
Depreciable Value of the Block	12,75,000	
Depreciation @ 15% on Rs. 9,75,000		1,46,250
Depreciation @ 7.5% on Rs. 3,00,000		22,500
Total Normal Depreciation (A)		2,04,750

Note:

Where an asset is purchased & put to use during the P.Y. for < 180 days, the normal depreciation shall be allowable @ 50% of the prescribed rate of depreciation. However, this restriction does not apply to the asset acquired in any earlier year.

Additional Depreciation:		
On New Machinery		
used for > 180 days @ 20% (Rs. 2,00,000 × 20%)	40,000	
uses for < 180 days @ 10% (Rs. 3,00,000 × 10%)	30,000	
Total Additional Depreciation (B)		70,000
Note:	Balance 10% additional depreciation on machinery purchased & put to use during the P.Y. for < 180 days amounting to Rs. 30,000 shall be allowable as deduction in the immediately following P.Y. i.e. during the P.Y. 2024-25.	
Total Permissible Depreciation [A + B]		2,74,750

Answer 11

Computation of Total Income & Tax Liability of Mr. Pritam for the A.Y. 2024-25:

Particulars	₹	₹
Income from Salary (computed)		40,000
Income from House Property - (Note 1)		1,68,000
Profit & Gains from Business or Profession		
Income from business of retail trade in grains - (Note 2)	1,95,000	
Less: Set-off of brought forward business loss relating to A.Y. 2022-23 of discontinued textile business - (Note 3)	(1,95,000)	NIL
Capital Gains - (Note 4)		
Sale consideration from sale of bonus shares	2,20,000	
Less: Indexed Cost of Acquisition	(Nil)	
Long-term capital gains	2,20,000	
Less: Set-off of unabsorbed depreciation relating to textile business - (Note 5)	(1,50,000)	70,000
Income from Other Sources		
Rent from vacant site let on lease		1,12,000
Gross Total Income		3,90,000
Less: Deduction u/s 80G - (Note 6)		(46,000)
Total Income		3,44,000
Tax on Total Income		
Tax on Long-term capital gains @ 20% of Rs. 70,000	14,000	
Tax on balance income of Rs. 2,74,000 (i.e. Rs. 3,44,000 - Rs. 70,000) @ 5%	1,200	15,200

Less: Rebate u/s 87A (100% of Tax on Total Income i.e. Rs. 15,200 or Rs. 12,500, whichever is lower)		(12,500)
		2,700
Add: Health & Education Cess @ 4%		108
Total Tax Liability		2,808
Rounded-off u/s 288B		2,810

Note:

(1) Income from House Property:

Gross Annual Value (GAV)	2,40,000
Less: Municipal taxes paid	(NIL)
Net Annual Value (NAV)	2,40,000
Less: Standard Deduction @ 30% of NAV u/s 24(a)	(72,000)
Income from House Property	1,68,000

Note: In the absence of other information relating to municipal value, fair rent & standard rent; rent received has been taken as the GAV.

(2) Since Mr. Pritam has not maintained books of accounts in respect of the business of retail trade in grains and the turnover from such business is less than Rs. 100 lakhs, the income from such business would be computed on presumptive basis as per section 44AD @ 8% of turnover. The income u/s 44AD is, therefore, Rs. 1,95,000, being 8% × Rs. 24,37,500.

Alternatively, the presumptive income u/s 44AD could have been 6% of Rs. 24,37,500 i.e. Rs. 1,46,250 (assuming that the turnover has been received through account payee cheques, drafts or through ECS).

(3) Business loss of a discontinued business can be carried forward and set-off against the profits of an existing business in the subsequent years brought forward business loss of Rs. 1,97,500 from discontinued textile business can be set-off against the current year income of Rs. 1,95,000 from the business of retail trade. The balance loss of Rs. 2,500 can be carried forward to the next year to be set-off against the business income of that year.

(4) Cost of acquisition of bonus shares is Nil as per section 55. The period of holding of bonus shares exceeds 24 months, therefore, it is a long-term capital asset and the gain arising from sale of such shares shall be long-term capital gains. Further, these shares are unlisted, long-term capital gains arising on sale of such shares shall be taxable.

(5) Unabsorbed Depreciation u/s 32 can be carried forward indefinitely and set-off against income under any head (except Salary). Section 44AD specifically provides

that while computing income of an eligible business on presumptive basis, any deduction allowable u/s 30 to 38 shall be deemed to have been given full effect to and no further deduction under those sections shall be allowed.

However, in the given problem, the unabsorbed depreciation relates to discontinued textile business and not to the retail trade business (eligible business) in respect of which income is computed on a presumptive basis u/s 44AD. Therefore, such unabsorbed depreciation can be set-off against any income of the current year. Accordingly, the same is adjusted against the long-term capital gains arising on sale of unlisted bonus shares.

- (6) In the above solution, the deductions under chapter VI-A and computation of tax liability has been worked out by setting-off the unabsorbed depreciation against long-term capital gains, which would be most beneficial for Mr. Pritam, since the long-term capital gain is taxable @ 20%, whereas the normal income of Mr. Pritam (i.e. Rs. 2,74,000) after such set-off would be taxable at 5%, which is the rate applicable to the income slab which Mr. Pritam falls in. Therefore, the deduction u/s 80G is computed as follows:

Deduction u/s 80G:

Particulars	₹	₹
Contribution to National Children's Fund - (Eligible for 100% Deduction)		30,000
Contribution to Charitable Trust Recognized for Section 80G purposes	40,000	
Deduction shall be 50% of 10% of Adjusted Total Income [i.e. $50\% \times (10\% \times \text{Rs. } 3,20,000)$; or 50% of 40,000, whichever is lower]		16,000
Total Deduction u/s 80G		46,000
Adjusted Total Income:		
Gross Total Income		3,90,000
Less: Long term capital gains		(70,000)
		3,20,000

Answer 12

Computation of total income of Mr. Ram for the Assessment Year 2023-24:

Particulars	₹	₹
Income from Salary		
Basic Salary (Rs. 20,000 × 12)		2,40,000
CCA (Rs. 1,000 × 12)		12,000
HRA (Rs. 5,000 × 12)	60,000	
Less: Exempt u/s 10(13A) - [See Note 1 below]	(48,000)	12,000
Education Allowance (Rs. 500×12×3)	18,000	
Less: Exempt u/s 10(14) (Rs. 100×12×2)	(2,400)	15,600
Gross Taxable Salary		2,79,600
Less: Standard deduction u/s 16(ia)		(50,000)
Net Taxable Salary		2,29,600
Profits and gains from business or profession		75,000
Income from the business of letting on hire, goods vehicle u/s 44AE [Rs. 7,500 (×) 10] - [See Note 2 below]		
Income from Other Sources		
Interest from company deposits	15,000	
Interest from Saving Bank Account	5,000	
	20,000	
Less: Deduction u/s 57:		
Rs. 1,00,000 @ 9% for 6 months-towards loan interest	(4,500)	15,500
Gross Total Income		3,20,100
Less: Deduction under Chapter VI-A:		
Section 80C - [Note 4 below]	93,000	
Section 80CCC	15,000	
Total Qualifying Deduction u/s 80C & 80CCC	1,08,000	(1,08,000)
Overall Limit u/s 80CCE (whichever is lower)	1,50,000	
Section 80TTA:		
Interest from Saving Bank Account - [Note 6 below]	5,000	(5,000)
Total Income		2,07,100

Notes:

- (1) HRA is exempt to the extent of the least of the following u/s 10(13A)
- (1) 50% of salary (as the city is Chennai) i.e. 50% of Rs. 2,40,000=Rs. 1,20,000
 - (2) Excess of rent paid over 10% of salary = Rs. 72,000 – Rs. 24,000 = Rs. 48,000
 - (3) Actual HRA received = 5,000 × 12 = Rs. 60,000

Least of the above i.e. Rs. 48,000 is exempt u/s 10(13A).

- (2) In the case of a person owning not more than 10 vehicles at any time during the P.Y., estimated income from each vehicle will be deemed to be Rs. 7,500/- for every month or part of the month during which the heavy vehicle is owned by the assessee during the P.Y. [Section 44AE].

Therefore, Presumptive income = Rs. 7,500 × 10 = 75,000.

If, however, the assessee declares a higher amount, such amount will be considered as income. In the instant case, since the assessee declares a lower amount, it cannot be considered, since no books of account are maintained. Also, interest is not deductible, since u/s 44AE, all deductions u/ss 30 to 38 are deemed to have been allowed.

- (3) Brought-forward loss from speculation business can be set-off only against income from speculation business and not against other business income.

- (4) **Deduction u/s 80C:**

Investment in notified equity linked saving scheme of UTI	12,000
Investment in PPF	52,000
Life insurance premium on own life restricted to 10% of sum assured	4,000
Tuition fees paid for two of his children (Most favourable to Ram)	25,000
Total Amount eligible for deduction u/s 80C	93,000

- (5) Contribution to pension fund of LIC Rs. 15,000 is deductible u/s 80CCC.
- (6) Deduction u/s 80TTA is allowed in respect of interest from Saving Bank Account upto a maximum of Rs. 10,000. Therefore, interest from Saving Bank Account of Rs. 5,000 is allowed as deduction.

Answer 13

Computation of total income of Mr. Rahul for the A.Y. 2023-24

Particulars	₹	₹
Long-term capital gains on sale of unlisted shares	2,05,000	
Less: Short-term capital loss on sale of property (Note 1)	(55,000)	
	1,50,000	

Less: Inter-head set-off of losses u/s 71 (Note 2):		
Loss from profession	(1,05,000)	
Loss under the head house property [Rs. 15,000 (+) Rs. 30,000]	(45,000)	Nil
Income from other sources		
Income from card games	55,000	
Winnings from lotteries	1,00,000	1,55,000
Gross Total Income		1,55,000
Less: Deductions under Chapter VIA (Note 4)		(Nil)
Total Income		1,55,000

Notes:

- As per section 74, short-term capital loss can be set-off against both short-term capital gains and long-term capital gains.
Hence, short-term capital loss of Rs. 55,000 can be set-off against long-term capital gains of Rs. 2,05,000 on sale of unlisted shares.
- Section 71 provides for set-off of loss from one head against income from another. As per section 71(2), loss under any head of income, other than capital gains, can be set-off against income under any head, including capital gains.
Therefore, loss of Rs. 1,05,000 from profession and loss of Rs. 45,000 from house property (both let out and self-occupied) can be set-off against the net income of Rs. 1,50,000 under the head "Capital Gains".
- Loss from an exempt source cannot be set-off against profit from a taxable source. Therefore, share of loss from a firm cannot be set-off against any other income, since share of profit from firm is exempt u/s 10(2A).
- As per section 58, no deduction in respect of any expenditure or allowance in connection with income by way of winnings from lotteries and income from card games is allowable under any provision of the Income-tax Act, 1961.
Therefore, since the total income comprises only of income from card games and winnings from lotteries, deduction under Chapter VI-A is not allowable from such income.
Therefore, Mr. Rahul will not be entitled to claim deduction u/s 80D in respect of medical insurance premium paid by cheque.
- Further, loss from horse races can neither be set-off against winnings from lotteries and income from card games nor can it be carried forward.

INCOME WHICH DO NOT FORM PART OF TOTAL

INTRODUCTION

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

NON-TAXABLE INCOMES (SECTION 10) SOME IMPORTANT SECTIONS

Section	Particulars
10(1)	Agricultural Income from India.
10(2)	Any sum received by an individual, as a member of H.U.F. Where such sum has been paid out of income or estate of the family is exempt from tax. Since H.U.F. has paid the tax thereon.
10(2A)	Share of profit from partnership firm: Since the Partnership Firm is taxed separately, share of a partner (including minor admitted for benefit of the firm) from a P.F.A.S. (Partnership firm assessed as such) as per partnership deed is exempt from tax. Since the P.F.A.S. has paid the tax thereon.
10(5)	DETAILED IN SALARIES CHAPTER
10(6)(ii)	Salary of a diplomatic personnel: Remuneration received by a person as an officer of an embassy, high commission, legation, commission, consulate or the trade representation of a foreign state or is a member of staff of any of these official will be exempt from tax if corresponding Indian officer enjoys the same benefit in that country.
10(10)	DETAILED IN SALARIES CHAPTER
10(10A)	DETAILED IN SALARIES CHAPTER
10(10AA)	DETAILED IN SALARIES CHAPTER
10(10B)	DETAILED IN SALARIES CHAPTER
10(10C)	DETAILED IN SALARIES CHAPTER
10(10CC)	DETAILED IN SALARIES CHAPTER

10(10D) Amount received on Life Insurance Policy is wholly exempt from tax (including bonus there on).

EXCEPTIONS: In the following cases, the amount received under the Life Insurance Policy is taxable:

- (i) Any sum received u/s. 80DD; [Refer chapter 12]; or
- (ii) Any sum received under a Keyman Insurance Policy; [Refer chapter 1 or
- (iii) Any sum received under an insurance policy issued **on or before 31.03.2012** in respect of which the **premium payable** for any of the years during the term of the policy **exceeds 20% of the capital sum assured; or**
- (iv) Any sum received under an insurance policy **issued on or after 1.4.2012** in respect of which **the premium payable** for any of the years during the term of the policy **exceeds 10% of the capital sum assured.**
- (v) Any sum received under an insurance policy **issued on or after 1-4-2013**, where the policy is for insurance on life of the assessee and for the benefit of any person, who is suffering from disability mentioned in section 80U or disease mentioned in section 80DDB, in respect of which the premium payable for any of the years during the term of the policy exceeds 15% of the capital sum assured.
- (vi) Any sum received towards U. L. I. P. policy issued on or after 1-2-21, if the amount payable as premium during the term of the policy exceeds 2,50,000 per year.
- (vii) If any life insurance policy is taken on or after 1.4.23 and annual premium in any P. Y. up to its maturity exceeds 5,00,000, then surplus at the time of maturity will be taxable. (If more than 1 LIP is taken, then limit of ₹5,00,000 is applicable for aggregate premium of all such L.I.P. issued on or after 1.4.23)

However the exemption will be available for any sum received on the death of a person in relation to the policies covered under point (iii), (iv), (v) and (vii) above.

It is important to note that in calculating "Capital sum assured" the following will not be considered.

- * The value of any premiums agreed to be returned or
- * the value of any benefit by way of bonus or otherwise over and above the sum actually assured, which is to be or may be received under the policy by any person.

(Keyman insurance policy means a Life Insurance Policy taken by a person on the life of another person who is or was the employee of the first mentioned person or is or was connected in any manner whatsoever with the business of the first mentioned person and includes such policy which has been assigned to a person, at any time during the term of the policy, with or without any consideration).

10 (11A) Any payment from an account, opened in accordance with the Sukanya Samridhi Account rules, 2014 made under the Government Savings Bank Act 1873, is fully exempt.

10(11) & 10(12) **DETAILED IN SALARIES CHAPTER**

10(12C) **ANY SUM RECEIVED FROM AGNIVEER CROPUS FUND WILL BE EXEMPT.**

10(13) **DETAILED IN SALARIES CHAPTER**

10(13A) **DETAILED IN SALARIES CHAPTER**

10(14) **DETAILED IN SALARIES CHAPTER**

10(15) Interest on securities:
is exempt from tax for notified securities.
Interest on the following is exempt from tax:

- * Interest on notified securities, bonds or certificates which are: 12 years National Saving Annuity Certificates; National Defence Gold Bonds, 1980; Special Bearer Bonds, 1991; Treasury Savings Deposit Certificates; Post Office Cash Certificates (5 years); National Plan Certificates (10 years); National Plan Saving Certificates (12 years); Post Office National Savings Certificates (12 years/ 7 years); Post Office Saving Bank Accounts; Public Account of Post Office Savings Account Rules (interest upto ₹ 5,000); Post Office CTD; Fixed Deposit [Government Savings Certificates (Fixed Deposit) Rules 1968 or Post Office (Fixed Deposit) rules 1968]; Special Deposit Scheme, 1981; and Non- Resident (Non-repatriable) Rupee Deposit Scheme.
- * Interest on 7% Capital Investment Bonds in the hands of individuals and Hindu Undivided Family which are specified by the Central Government before 1.6.2002 for this section.
- * Interest on 10% Relief Bonds, in the case of an individual or Hindu undivided family.

- * Interest payable to any foreign bank performing central banking functions outside India.
- * Interest on notified bonds / debentures of a public sector company.
- * Interest on securities held by the Welfare Commissioner, Bhopal Gas Victims, Bhopal, or interest on deposits for the benefit of the victims of the Bhopal gas leak disaster held in such account with the Reserve Bank of India or with a public sector bank, as the Central Government may, by notification in the Official Gazette, specify in this behalf.
- * Interest on Gold Deposit Bonds issued under the Gold Deposit Scheme, '99 notified by the Central Govt. or deposit certificates issued under Gold Monetisation Scheme, 2015.

- 10(16) Education Scholarship:
Scholarship granted to meet the cost of education is exempt from tax.
- 10(17) Daily allowance of Members of Parliament:
is exempt from tax in respect of the following allowances.
- (a) daily allowance received by any Member of Parliament or any State Committee thereof.
 - (b) any allowance received by a Member of Parliament under the Members of Parliament (Constituency Allowance) Rules, 1986 and
 - (c) any constituency allowance received by any person by reason of his membership of any State Legislature under any Act or rules made by that State Legislature.
- 10(17A) Awards:
The following awards, whether paid in cash or in kind, are exempt from tax.
- * Any payment made in pursuance of any award instituted in the public interest by the Central Government or any State Government or instituted by any other body and approved by the Central Government.
 - * Any payment made as reward by the Central Government or any State Government for such purposes as may be approved by the Central Government in this behalf in the public interest.

10(18)	<p>any income by way of -</p> <p>(i) pension received by an individual who has been in the service of the Central or State Government and has been awarded "Param Vir Chakra" or "Maha Vir Chakra" or "Vir Chakra" or such other gallantry award as the Central Government may, by notification in the Official Gazette, specify in this behalf;</p> <p>(ii) family pension received by any member of the family of an individual referred to in sub-clause (i).</p>
10(19)	<p>Family pension received by the widow or children or nominated heirs, as the case may be, of a member of the armed forces (including para - military forces) of the union, where the death of such members has occurred in the course of operational duties, in such circumstances and subject to such conditions, as may be prescribed.</p>
10 (26AAA)	<p>Any income which accrues or arises to an individual, being a Sikkimese,</p> <p>(a) from any source in the state of Sikkim ; or</p> <p>(b) by way of dividend or interest on securities.</p> <p>For the purpose of this clause, "Sikkimese" shall mean -</p> <p>(a) an individual whose name is recorded in the register maintained under Sikkim Subjects Regulations, 1961</p> <p>(b) any other individual, whose name does not appear in the register but it is established beyond doubt that the name of such individual's father or husband or paternal grandfather or brother from the same father has been recorded in the register.</p>
10(32)	<p>Income of Minor:</p> <p>In case the income of an individual includes the income of his minor child in terms of section 64(1A), such individual shall be entitled to exemption of maximum ₹ 1,500/- in respect of each minor child.</p> <p>Any income by way of dividends referred to in section 115-O.</p>
10(34A)	<p>Any income arising to an assessee being a shareholder, on account of buy back of shares by the company as referred to in section 115QA (Effective from 1-6-2013).</p>

Sec. 115QA: "Tax on Distributed Income".

The difference between the buy - back price and issue price of the shares is called as "Distributed Income:". The company would be liable to pay additional income-tax @ 20% of the distributed income paid to the shareholder plus surcharge @ 12 % and education cess @ 4 %. The additional income-tax payable by the company **shall be the to dividend distribution tax**. The income arising to the **shareholders** in respect of such buy back by the company would **be exempt under section 10(34A)** since the company is liable to pay the additional income-tax on the buy-back of shares.

10(37)

In the case of an assessee, being an individual or a Hindu undivided family, any income (long - term or short - term) chargeable under the head "Capital gains" arising from the transfer of agricultural land, where-

- (i) such urban land is situated in any area referred to in section 2(14).
- (ii) such land, during the period of two years immediately preceding the date of transfer, was being used for agricultural purposes by such Hindu undivided family or individual or a parent of his ;
- (iii) such transfer is by way of compulsory acquisition under any law, or a transfer the consideration for which is determined or approved by the Central Government or the Reserve Bank of India ;
- (iv) such income has arisen from the compensation or consideration for such transfer received by such assessee on or after 1.4.2004.

In other words the benefit of exemption would be available for compensation received after 1.4.2004, irrespective of the date of transfer, i.e. even if the land was compulsorily acquired prior to 1.4.2004 but initial payment and / or enhanced payment is received on or after 1.4.2004, it will also be exempt from income tax.

Explanation - For the purposes of this clause, the expression "compensation or consideration" includes the compensation or consideration enhanced or further enhanced by any court, tribunal or other authority.

10(43)

Any amount received by an individual as a loan, either in lump sum or in installment, in a transaction of reverse mortgage referred to in section 47(xvi).

- 10 (45) Any allowance or perquisite, as may be notified by the Central Government in the Official Gazette in this behalf, paid to the Chairman or a retired Chairman or any other member or retired member of the Union Public Service Commission.