

CA/CMA INTER

DIRECT TAXATION

BOOSTER

AS AMENDED BY F.A (NO.2) OF 2024



CA UMASANKAR MAGANTI

Material Applicability:

**For CA Inter– May 2025/ Sep 2025/ Jan 2026
attempts**

**For CMA Inter – June 2025/ Dec 2025
attempts**

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Why “Uma’s Phoenix”

As a young Chartered Accountant who cleared all levels of the CA course on the first attempt and with over 3 years of teaching experience in Direct Taxation, I have observed that many CA and CMA students face significant challenges in understanding this subject. Due to its vast scope, students often skip preparing certain important chapters, which adversely impacts their performance and results in lower scores. For many, Direct Taxation has become a nightmare and a bottleneck, preventing them from successfully clearing their group examinations.

"Uma's Phoenix" is a dedicated coaching institute founded with a mission to simplify the complexities of direct taxation for aspiring Chartered Accountants (CA) and Cost & Management Accountants (CMA). Guided by Umasankar, a seasoned professor in direct taxation, this institute focuses on equipping students at the CA/CMA Intermediate and Final levels with the knowledge and confidence to excel in this challenging subject.

Inspired by the mythical Phoenix, symbolizing resilience, transformation, and triumph, "Uma's Phoenix" aims to help students rise from struggles and achieve remarkable success in their taxation journey. Recognizing that many students find taxation a daunting subject, our teaching methodology emphasizes clarity, practical understanding, and step-by-step learning, making complex concepts accessible and manageable.

At Uma's Phoenix, we nurture every student's potential, helping them not only master direct taxation but also build the confidence to excel in exams. With a focus on personalized guidance and result-oriented learning, we aim to raise a generation of high-achieving professionals ready to soar in their careers, much like the Phoenix rising to greatness.

Enroll into “Uma's Phoenix” and soar to success in your Direct Taxation preparation, just like a Phoenix rising to greatness.

Disclaimer:

Every effort has been made to ensure that this book is free from errors. However, if you come across any errors, please feel free to write them at caumasankar.maganti@gmail.com.

Wherever necessary, concepts have been simplified and presented in clear language with the aid of charts for better understanding.

The views expressed in this book are solely those of the author and are not legally binding on any entity.

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Acknowledgements:

With deep gratitude, I wholeheartedly thank my parents, **Mr. Srinivasa Rao and Ms. Manga**, for giving me the freedom to pursue my passions and for being my unwavering support system in every endeavor. Your silent sacrifices and unconditional encouragement have been the foundation of my journey. I can proudly say that **who I am today is entirely because of you.**

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Lastly, I am profoundly grateful to **all those who have taught me invaluable life lessons**, shaping me into a better version of myself. Your impact has played a crucial role in my journey, and I carry your wisdom with me always.

I dedicate this book to my students who fuels up my passion to contribute to student fraternity constantly.

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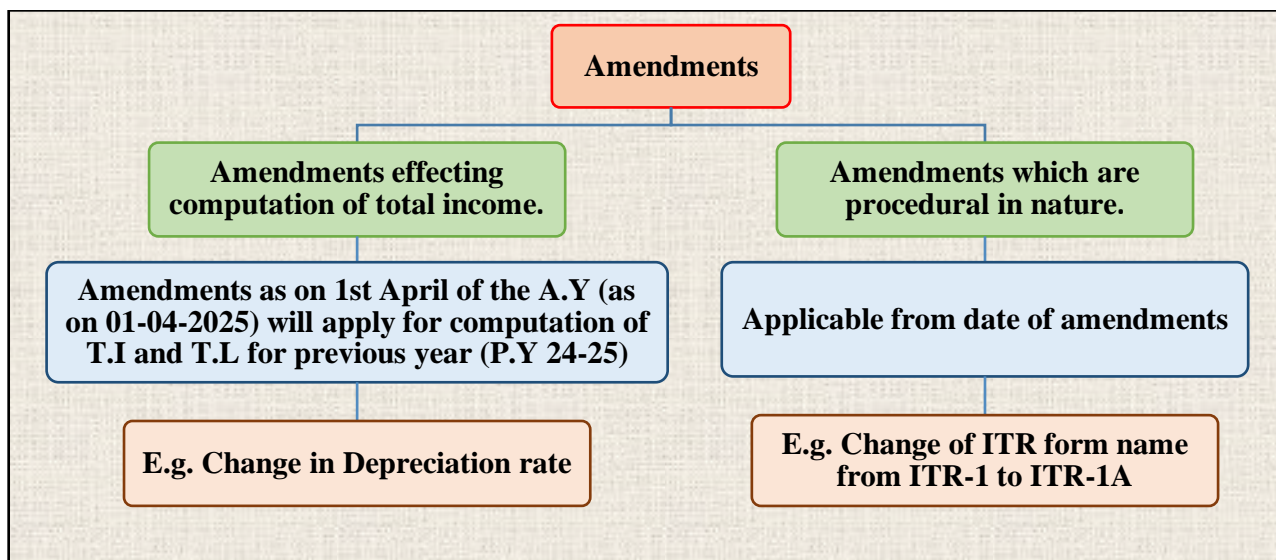
RESIDENTIAL STATUS II

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10AA, AMT, MARGINAL RELIEF

1. BASIC CONCEPTS**APPLICABLE FINANCE ACT:** Finance (No. 2) Act, 2024.

(Applicable for P.Y 24-25 A.Y 25-26)

AMENDMENTS: Changes done to income tax act are called Amendments.**EFFECTIVE DATE OF AMENDMENTS:****A) Basic Exemption Limit (Maximum income not chargeable to tax)**

| | CATEGORY OF PERSON | BEL (₹) |
|----|---|------------|
| a) | Resident Individuals (Men or Women) (< 60 years), Non-resident Individual (Men or Women) (irrespective of age limit), HUF, AOP/BOI, AJP (except co-operative society) [Optional regime] | 2,50,000/- |
| b) | Resident Individuals (Men or Women) (≥ 60 years but < 80 years) (Senior citizens) [Optional regime] | 3,00,000/- |
| c) | Resident Individuals (Men or Women) (≥ 80 years) (Very Senior citizens) [Optional regime] | 5,00,000/- |
| d) | Individual / HUF / AOP / BOI / AJP (except co-operative society) [irrespective of age limit/ residential status] [Default regime] | 3,00,000/- |
| e) | Companies & Partnership firm | Nil |
| f) | Co-operative societies | Nil |
| g) | Local authorities | Nil |

STUDENT NOTES:

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TAX RATES FOR A.Y 25-26

Individual/ HUF / AOP / BOI / AJP
(except Co-operative society)

Default tax regime

Optional tax regime

| | |
|----------------------------------|-----|
| a) Up to ₹3,00,000 | Nil |
| b) From ₹3,00,001 to ₹7,00,000 | 5% |
| c) From ₹7,00,001 to ₹10,00,000 | 10% |
| d) From ₹10,00,001 to ₹12,00,000 | 15% |
| e) From ₹12,00,001 to ₹15,00,000 | 20% |
| f) Above ₹15,00,000 | 30% |

| Person | Total Income | Tax (%) |
|---|--|-------------------------|
| a) Resident Individual (<60 years), All Non-resident individuals (No Age Limit), HUF, AOP/BOI & AJP (except Co-operative Society) | Up to ₹2,50,000 ₹ 2,50,001 - ₹ 5,00,000 ₹ 5,00,001 - ₹ 10,00,000 Above ₹10,00,001 | Nil 5% 20% 30% |
| b) Resident Individual's (≥ 60 years but < 80 years) (Senior Citizen) | Up to ₹3,00,000 ₹ 3,00,001 - ₹ 5,00,000 ₹ 5,00,001 - ₹ 10,00,001 Above ₹10,00,001 | Nil 5% 20% 30% |
| c) Resident Individual's (≥ 80 years) (very senior citizen) | Up to ₹5,00,000 ₹ 5,00,001 - ₹ 10,00,000 Above ₹10,00,001 | Nil 20% 30% |

NOTES:

- Where an assessee wants to shift from default tax regime to alternative/optional tax regime, then he should exercise the option in the prescribed manner;

| | |
|---|--|
| i) Where the person is not having PGBP income | Every year he may choose to pay tax under default tax regime u/s 115BAC(1A) or can exercise the option to shift out of default tax regime u/s 115BAC (6) along with filing return of income u/s 139(1). |
| ii) Where the person has income from business or profession | <ul style="list-style-type: none"> Generally, default tax rates are applicable. However, assessee can exercise the option u/s 115BAC (6) within the due date for filing the returns of income specified u/s 139(1) to shift out of default tax regime and such option once exercised shall apply to subsequent assessment years. Such person who has exercised the above option shall be able to withdraw such option only once and pay tax under the default tax regime u/s 115BAC(1A) for a previous year |

| | |
|--|---|
| | <p>other than the year in which it was exercised.</p> <ul style="list-style-type: none"> Thereafter, such person shall never be eligible to exercise this option, except where such person ceases to have any business income in which case, option (i) above would be available. |
|--|---|

- Marginal relief is also available in case of Person paying tax under Default tax regime u/s 115BAC. (Explained in Further chapters).
- Resident Individual whose 60th birthday/ 80th birthday falls on **01.04.2025** would be considered to have attained a particular age on 31st March preceding the anniversary of his birthday, hence eligible for higher basic exemptions limit of 3 Lakhs/ 5 Lakhs under optional tax regime.

FOLLOWING DEDUCTIONS/EXEMPTIONS ARE NOT ALLOWABLE IF ASSESSEE PAYS TAX UNDER DEFAULT TAX REGIME UNDER SEC 115BAC:

| Reference chapter | Exemption/ Deduction |
|------------------------------|--|
| a) Salaries | <ul style="list-style-type: none"> Deductions u/s 16 except standard deduction. Leave travel concession – Section 10(5). House rent allowance – section 10(13A). Specified allowances exempt u/s 10(14) other than <ul style="list-style-type: none"> a) Transport allowance, transfer allowance and conveyance allowance for official purposes. b) Transport allowance of ₹ 3,200 per month to a handicapped employee. |
| b) IFHP | <ul style="list-style-type: none"> Interest in respect of SOP u/s 24(b). |
| c) PGBP | <ul style="list-style-type: none"> Additional depreciation – section 32(1)(iia). Deduction for specified business u/s 35AD. Deduction for specific research [Sec 35(1)(ii)(iia)/(iii), 35(2AA)] |
| d) Clubbing of income | <ul style="list-style-type: none"> Exemption up to ₹ 1,500 available in the case of clubbing income of a minor child [Sec 10(32)] |
| e) Set off and carry forward | <ul style="list-style-type: none"> Inter-head set-off of loss under the head IFHP u/s 71. |
| f) Chapter VIA | <ul style="list-style-type: none"> All deductions except 80CCD (2), 80CCH(2) and 80JJAA. |
| g) Exemptions | <ul style="list-style-type: none"> Allowances to MP's/MLA's section 10(17). Exemption for unit in SEZ – Section 10AA. |

****Alternate Minimum Tax (AMT) u/s 115JC is not applicable if the assessee pays tax under default tax regime u/s 115BAC. Consequently, AMT tax credit of earlier years cannot be adjusted against tax liability which is computed u/s 115BAC.**

INCOME CHARGEABLE AT SPECIAL TAX RATES (APPLICABLE FOR ALL CATEGORY OF PERSONS)

| Income | Tax Rate |
|---|---|
| Sec 112A (LTCG) <ul style="list-style-type: none"> Before 23-07-24 On or after 23-7-24 <p>Note: Overall exemption allowed u/s 112A during P.Y 24-25 is 1.25 lakhs.</p> | In excess of 1,25,000 would be taxable <ul style="list-style-type: none"> @ 10% flat rate, if transfer is before 23-7-24 @12.5% flat rate, if transfer is on or after 23-7-24 |

| | |
|--|--|
| Sec 112 (LTCG) | |
| - Before 23-07-24 | 20% flat rate (with indexation) |
| - On or after 23-7-24 | 12.5% flat rate (without indexation) |
| Sec 111A (STCG) | |
| - Before 23-07-24 | 15% flat rate |
| - On or after 23-7-24 | 20% flat rate |
| Sec 115BB (Lottery) | 30% flat rate |
| Sec 115BBE (Deemed Income) | 78% (Flat 60% + Surcharge @25% +HEC @4%) |
| Sec 115BBJ (Net winning from online games) | 30% flat rate |

NOTE: The above tax rates are applicable even if assesses opts to pay tax u/s 115BAA /115BAB/115BAC/ 115BAD/115BAE.

SURCHARGE:

- It is always calculated on tax amount (Tax on tax).
- For Individuals (Irrespective of age limit)/HUF/AOP (Other than AOP only consisting of companies as members)/BOI/AJP (except Co-operative society) – Irrespective of residential status.

| Total Income | Surcharge Rate |
|-------------------------------|--|
| Up to 50 lakhs | No Surcharge |
| > 50 lakhs but \leq 1 crore | 10% of Income Tax |
| > 1 Crore but \leq 2 Crore | 15% of Income Tax |
| > 2 Crore but \leq 5 Crore | 25% of Income Tax |
| > 5 Crore | 25% (under Default tax regime) / 37% (under Optional tax regime) |

FOR AOP (CONSISTING ONLY COMPANIES AS MEMBERS)

| Total Income | Surcharge Rate |
|-------------------------------|-------------------|
| > 50 lakhs but \leq 1 Crore | 10% of Income Tax |
| > 1 Crore | 15% of Income Tax |

a) LTCG U/S 112

c) STCG U/S 111A

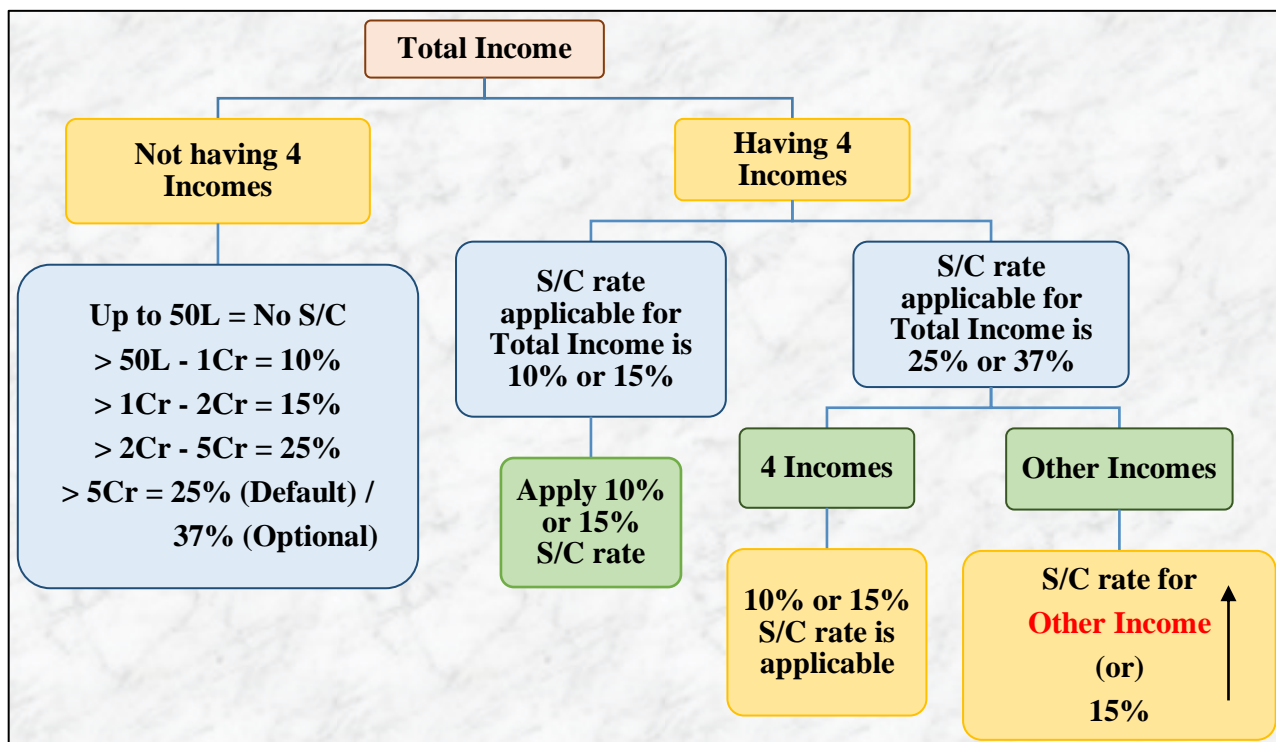
b) LTCG U/S 112A

d) Dividend

For above 4 incomes, 25% and 37% surcharge rate is not applicable i.e., maximum surcharge rate applicable is 15%.

STUDENT NOTES:

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HOW TO CHOOSE SURCHARGE RATE ?**QUESTION:**

From the following information of an Individual ascertain the applicable surcharge if he opt out from default tax regime. ₹ in lakhs.

| Income | Case-I | Case-II | Case-III | Case-IV | Case-V | Case-VI |
|---------------|--------|---------|----------|---------|--------|---------|
| Dividend | 10 | 10 | 60 | 60 | 55 | 80 |
| STCG u/s 111A | 20 | 60 | 54 | 50 | 60 | 90 |
| LTCG u/s 112A | 25 | 65 | 55 | 65 | 55 | 75 |
| Other Income | 40 | 50 | 300 | 600 | 111 | 56 |
| Total Income | 95 | 185 | 469 | 775 | 281 | 301 |

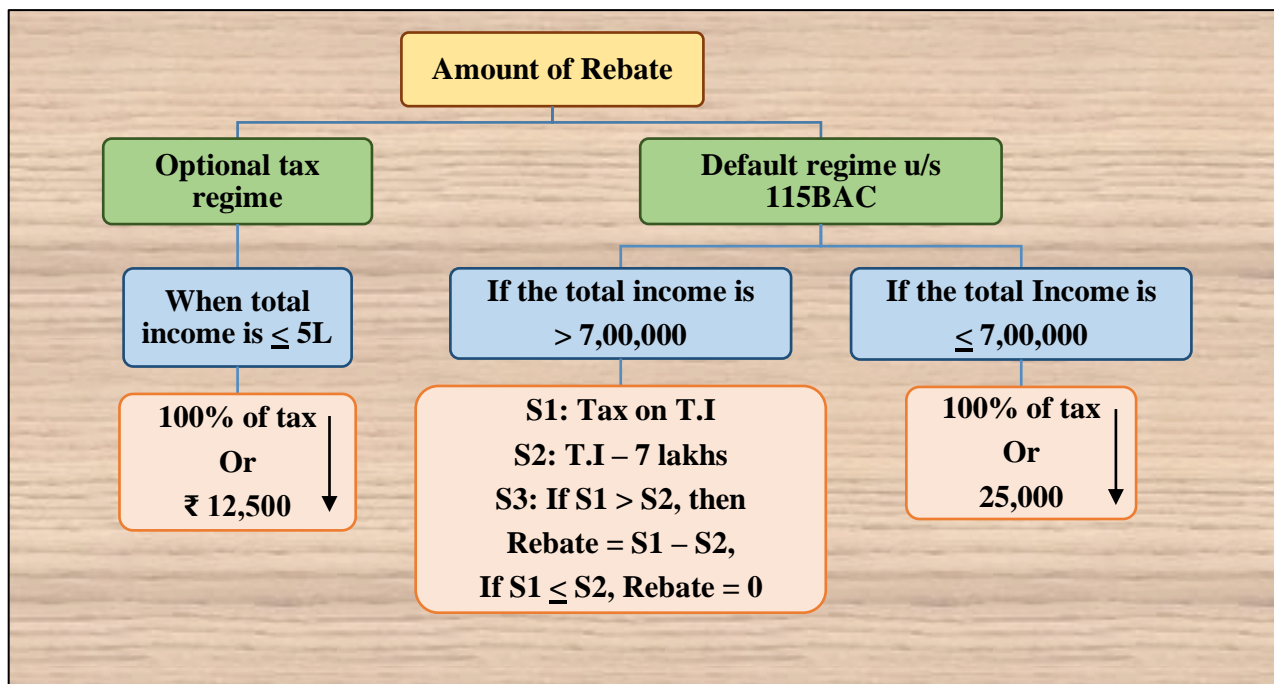
SOLUTION:

| | |
|----------|--|
| Case-I: | @ 10% on Income-tax computed on total Income of 95 lakhs. |
| Case-II | @ 15% on income-tax computed on total income of 1.85 crores |
| Case-III | Surcharge @ 15% would be levied on income-tax on: <ul style="list-style-type: none"> Dividend income of 60 lakhs. STCG of 54 lakhs chargeable to tax u/s 111A; and LTCG of 55 lakhs chargeable to tax u/s 112A Surcharge 25% on other income of 300 Lakhs. |
| Case IV | Surcharge @ 15% would be levied on income-tax on: <ul style="list-style-type: none"> Dividend income of 60 lakhs. STCG of 50 lakhs chargeable to tax u/s 111A & LTCG of 65 lakhs chargeable to tax u/s 112A. Surcharge @ 37% on 6 crores included in total income |

| | |
|---------|---|
| Case V | @15% on income-tax computed on total income of 2.81 crore |
| Case VI | @15% on income-tax computed on total income of 3.01 crore |

REBATE U/S 87A (AS per ICAI Material)

- The assessee is an Individual &
- He is resident in India (ROR or RNOR)

**NOTE:**

- Rebate u/s 87A should be calculated before adding H & EC.
- Rebate u/s 87A is not available in respect of tax payable on LTCG u/s 112A.

HEALTH & EDUCATION CESS (APPLICABLE FOR ALL ASSESSES)

- Rate: 4% of (Tax + Surcharge - Rebate)

ROUNDING OFF OF TOTAL INCOME (SEC 288A) AND TAX LIABILITY (SEC 288B)

- After calculation of total income and tax liability, if there is any decimal, ignore the decimal.
- Consider the last digit
 - If last digit is 5 or > 5, round off to next multiple of 10.
 - If last digit is < 5 (i.e., 1/2/3/4), round off to previous multiple of 10.

MARGINAL RELIEF

- This topic will be discussed clearly in T.I chapter.

PARTNERSHIP FIRM/ LLP/ LOCAL AUTHORITY

- Tax rate: 30% flat rate.
- Surcharge: 12% of Tax, if T.I > 1 crore. (If T.I is up to 1 crore, no surcharge)

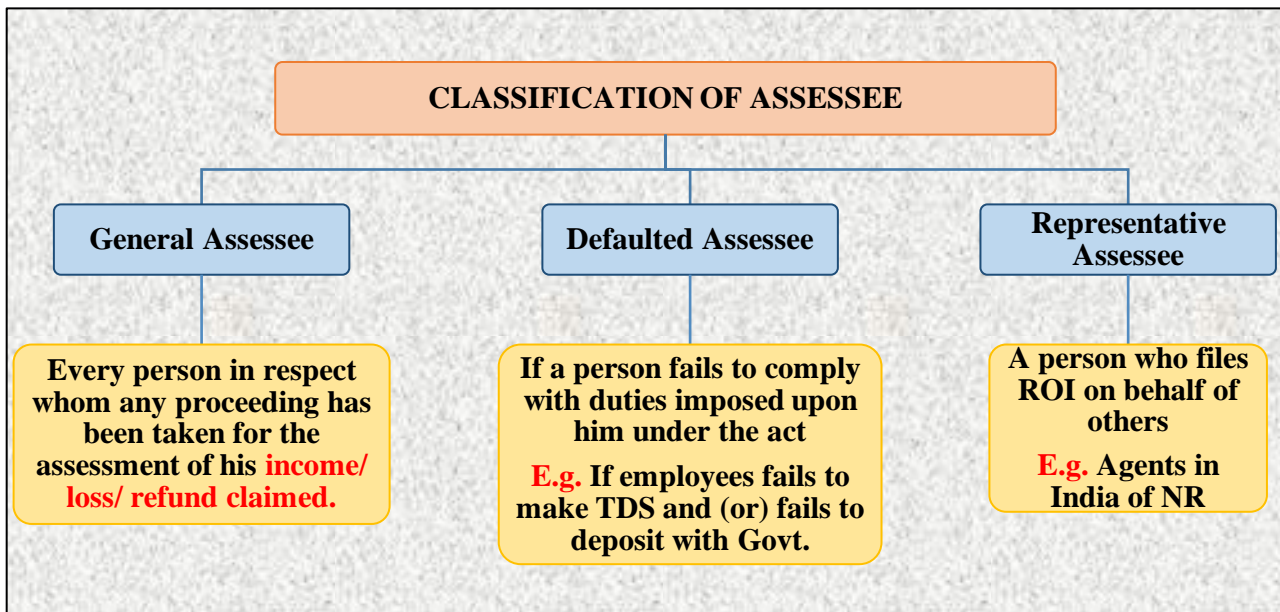
COMPANY/CO-OPERATIVE SOCIETY

| Assessee | | Tax Rate | Surcharge |
|----------------------|---|---------------------|--|
| Domestic Company | Regular Provision <ul style="list-style-type: none"> Where the total turnover or gross receipt in the previous year 2022-23 does not exceed 400 crores. In case of other domestic companies. Note: If t/o of PY 22-23 is not given, consider 30%. | 25% | Total Income <ul style="list-style-type: none"> ≤ 1Cr – No surcharge > 1 Cr up to 10 Cr – 7% > 10 Crores – 12% |
| | Optional Provisions Sec 115BAB: <ul style="list-style-type: none"> Domestic company & Manufacturing Business & It was set up and registered on or after 1st October 2019 & Manufacture articles or things before 31-03-2024 | 30% | |
| | Sec 115BAA: In case of other Domestic companies which cannot choose 115BAB | 15% | |
| Foreign Company | Tax rate on Total Income | (Eff rate – 17.16%) | 10% |
| Co-operative Society | | 22% | Total Income <ul style="list-style-type: none"> ≤ 1cr – No Surcharge >1Cr up to 10 Cr- 2% > 10 crores – 5% |
| | Regular Provisions <ul style="list-style-type: none"> Up to 10,000 10,001 – 20,000 Above 20,000 | 35% | Total Income <ul style="list-style-type: none"> ≤ 1cr – No Surcharge > 1Cr up to 10 Cr - 7% > 10 crores – 12% |
| | Optional Provisions Sec 115BAE: <ul style="list-style-type: none"> Co-operative Society & Manufacturing Business & It was set up and registered on 01-04-2023 & Manufacture articles or things before 31-03-2024 | 10% | |
| | Sec 115BAD: In case of other resident Co-operative Societies which cannot choose 115BAE | 15% | |
| | | (Eff rate – 17.16%) | 10% |
| | | 22% | |

NOTE: For Sec 115BAD, 115BAB, 115BAA & 115BAE Surcharge rate is always 10%.

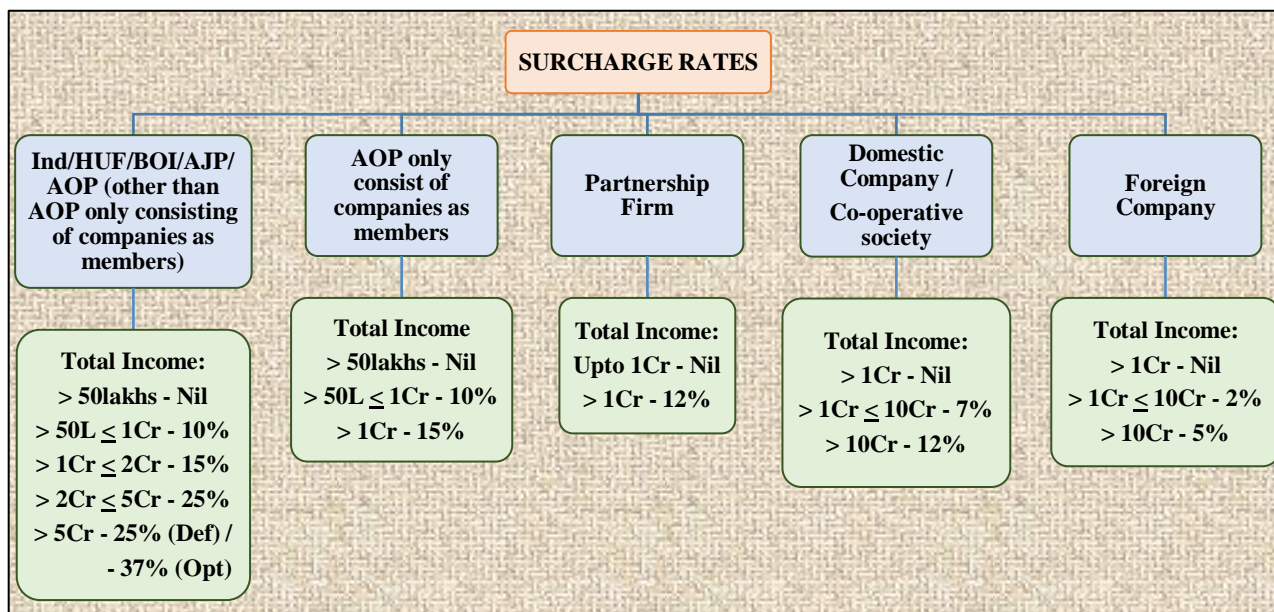
The concessional rates u/s 115BAB/115BAA/115BAD/115BAE are applicable only if the assessee do not avail certain exemptions/ Deductions like 10AA, 35AD, 80IA to 80RRB except 80JJAA, additional depreciation etc...

ASSESSEE: Every person who pays the tax or any other sum under the provisions of income tax act is treated as an assessee.



IMPORTANT CONCEPTS:

| | |
|---------------|--|
| Explanation | •It gives clarification to the provision contained in that section/ sub-section/ clause. |
| Provision | •It gives exception to the provision contained in respective section / sub-section/ clause. |
| Circulars | •Issued by CBDT •Issued for guidance of officers (or) assesseees. •Circular are not binding on assesseees. |
| Notifications | •Issued by CG •CBDT is also empowered to issue notification. |
| Exemption | •Those items which do not form part of total income are known as exemptions. •E.g. Agriculture income u/s 10(1) |
| Deductions | •These items are first included in gross total income and then deducted from GTI in order to arrive total income. •E.g. Interest on Savings A/c is added in GTI and later allowed as deduction u/s 80TTA. |

**NOTE:**

- 1) 115BAB/115BAA/115BAD/115BAE – 10%
- 2) Maximum Surcharge rate applicable.

QUESTION: Mr. Agarwal aged 40 years and a resident in India, has a total income of ₹ 6,50,00,000, comprising long term capital gain taxable under section 112 on 9-12-24 of ₹55,00,000, short term capital gain taxable under section 111A on 7-4-24 of ₹65,00,000 and other income of ₹5,30,00,000. Compute his tax liability for A.Y.2025-26 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

SOLUTION:

a) Computation of tax liability of Mr. Agarwal for the A.Y.2025-26 under default tax regime.

| Particulars | (₹) | (₹) |
|--|-------------|--------------------|
| Tax on total income of ₹ 6,50,00,000 | | |
| Tax @ 12.5% on LTCG u/s 112 of ₹ 55,00,000 | 6,87,500 | |
| Tax @ 15% on STCG u/s 111A of ₹ 65,00,000 | 9,75,000 | 16,62,500 |
| Tax on other income of ₹ 5,30,00,000 | | |
| ₹ 3,00,000 - ₹ 7,00,000 @ 5% | 20,000 | |
| ₹ 7,00,000 - ₹ 10,00,000 @ 10% | 30,000 | |
| ₹ 10,00,000 - ₹ 12,00,000 @ 15% | 30,000 | |
| ₹ 12,00,000 - ₹ 15,00,000 @ 20% | 60,000 | |
| ₹ 15,00,000 - ₹ 5,30,00,000 @ 30% | 1,54,50,000 | 1,55,90,000 |
| TAX AMOUNT | | 1,72,52,500 |
| Add: Surcharge @ 15% on ₹16,62,500 | 2,49,375 | |
| @ 25% on ₹ 1,55,90,000 | 38,97,500 | 41,46,875 |
| TAX + SURCHARGE | | 2,13,99,375 |
| Add: Health and education Cess @4% | 8,55,975 | 8,55,975 |
| TOTAL Tax Liability | | 2,22,55,350 |

b) Computation of tax liability of Mr. Agarwal for the A.Y.2025-26 under optional provisions of the Act

| Particulars | (₹) | (₹) |
|---|-------------|-------------|
| Tax on total income of ₹ 6,50,00,000 | | |
| Tax @ 12.5% on LTCG u/s 112 of ₹ 55,00,000 | 6,87,500 | |
| Tax @ 15% on STCG u/s 111A of ₹ 65,00,000 | 9,75,000 | 16,62,500 |
| Tax on other income of ₹ 5,30,00,000 | | |
| ₹ 2,50,000 - ₹ 5,00,000 @ 5% | 12,500 | |
| ₹ 5,00,000 - ₹ 10,00,000 @ 20% | 1,00,000 | |
| ₹ 10,00,000 - ₹ 5,30,00,000 @ 30% | 1,56,00,000 | 1,57,12,500 |
| | | 1,73,75,000 |
| Add: Surcharge @ 15% on ₹ 16,62,500 | 2,49,375 | |
| @ 37% on ₹ 1,57,12,500 | 58,13,625 | 60,63,000 |
| | | 2,34,38,000 |
| Add: Health and education cess @ 4% 2,34,38,000 | 9,37,520 | 9,37,520 |
| Tax Liability | | 2,43,75,520 |

2. RESIDENTIAL STATUS – I**INCOMES ARE DIVIDED INTO TWO TYPES :-**

- a) **INDIAN INCOME** :- Income accrued/ Deemed to be accrued (*or*) received/ deemed to be received in India.
- b) **FOREIGN INCOME** :- Income accrued (*and*) received outside India.

MEANING OF INCOME RECEIVED

The receipt of income refers to only the first occasion when the recipient gets the money under his control. Thereafter, remittance or transmission of that amount from one place or person to another does not constitute receipt of income in the hands of the subsequent recipient.

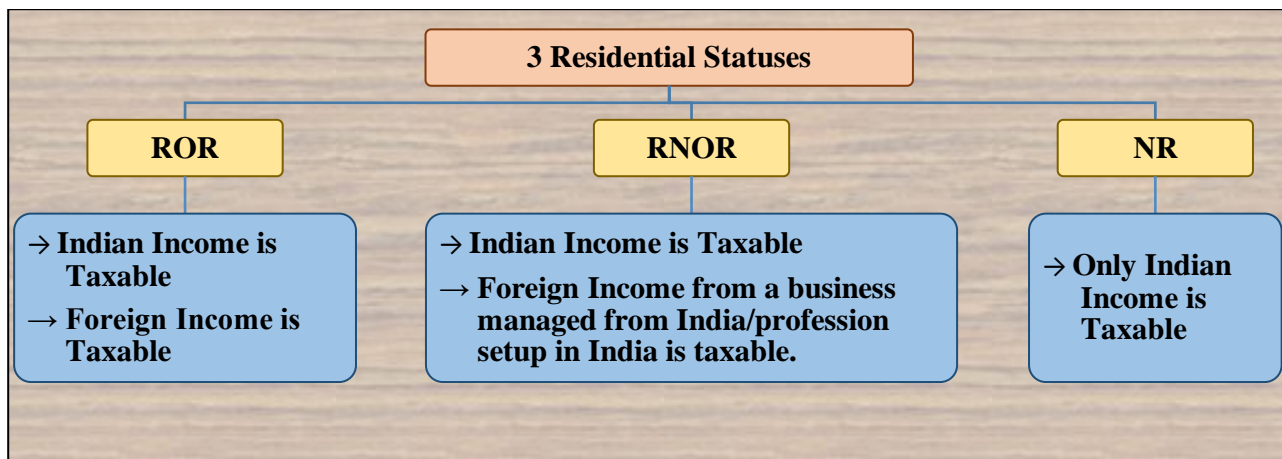
Accrue Vs Due:

Accrue refers to the right to receive income, whereas due refers to the right to enforce payment of the same.

For e.g. salary for work done in **December** will accrue throughout the month, day to day, but will become due on the salary bill being passed on **31st December** or **1st January**.

Notes:

- a) Source of income located in India irrespective of place of receipt - Indian income.
- b) Source of income located outside India but received in India - Indian income.
- c) Source of income located outside India and received outside India - foreign income.
- d) Deemed to be accrued and deemed to be received - will be discussed in residential status – II chapter.

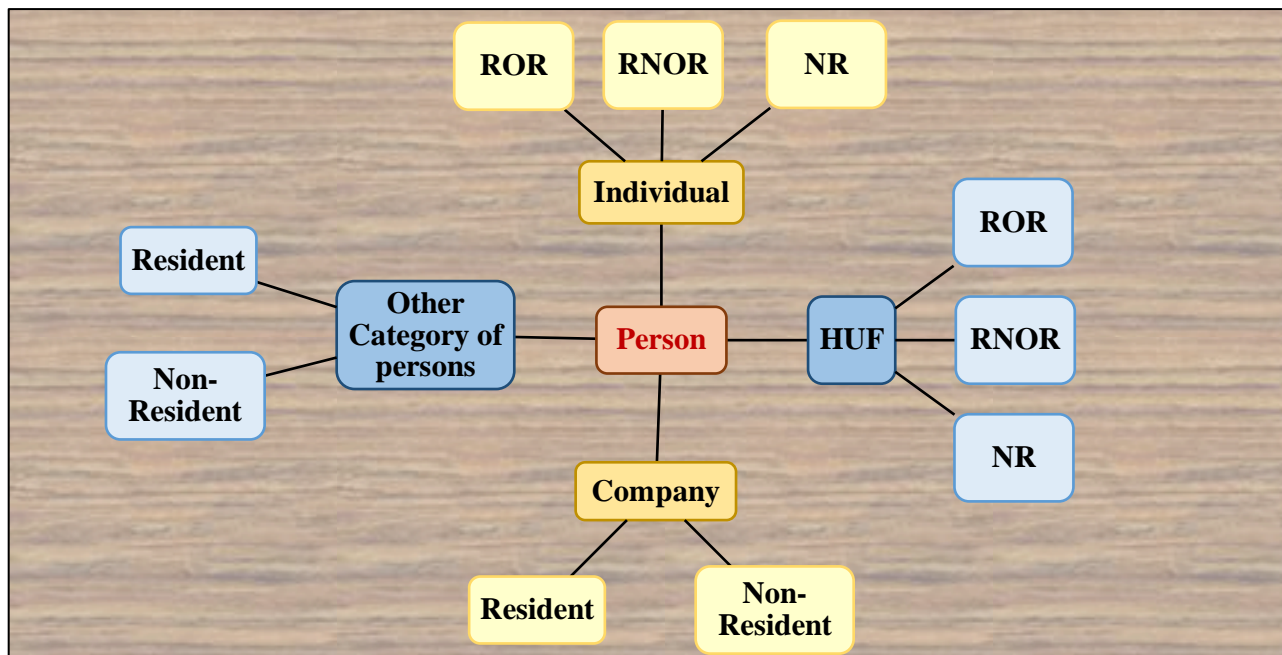


DETERMINATION OF RESIDENTIAL STATUS MEANS DETERMINING WHETHER A PERSON IS ROR (OR) RNOR (OR) NR

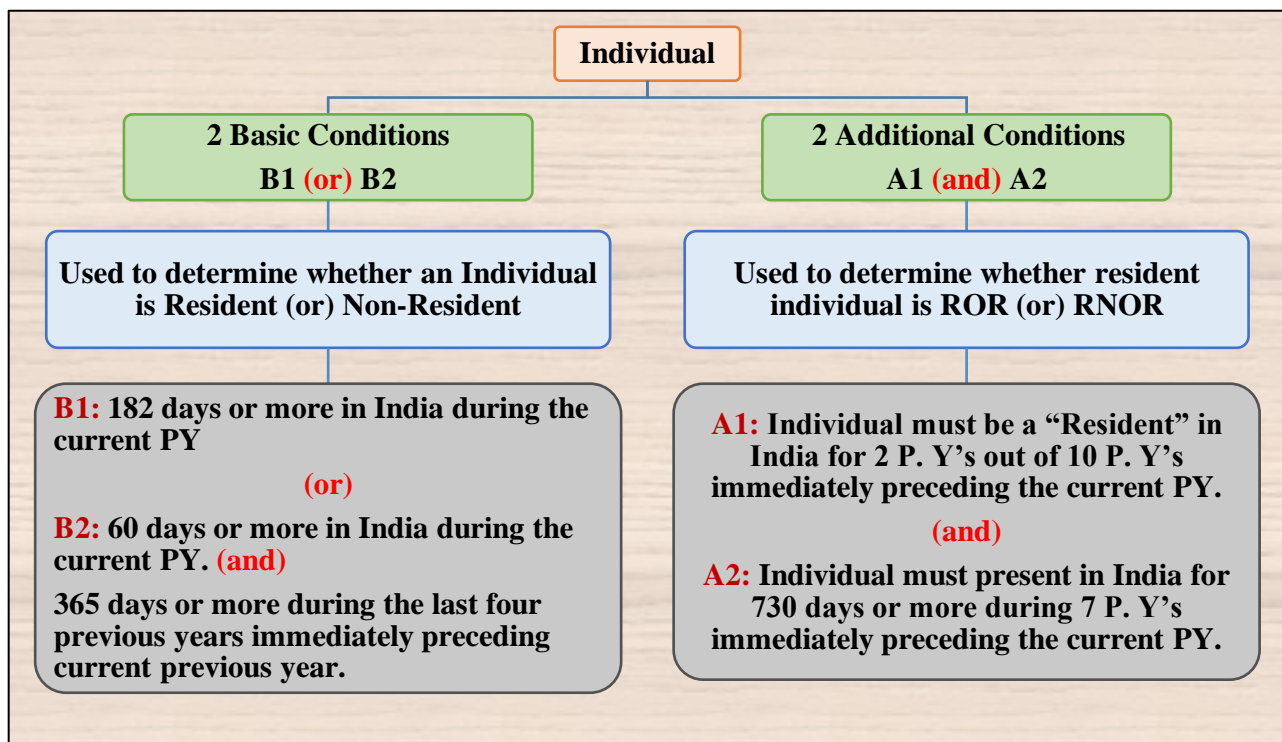
Important Points

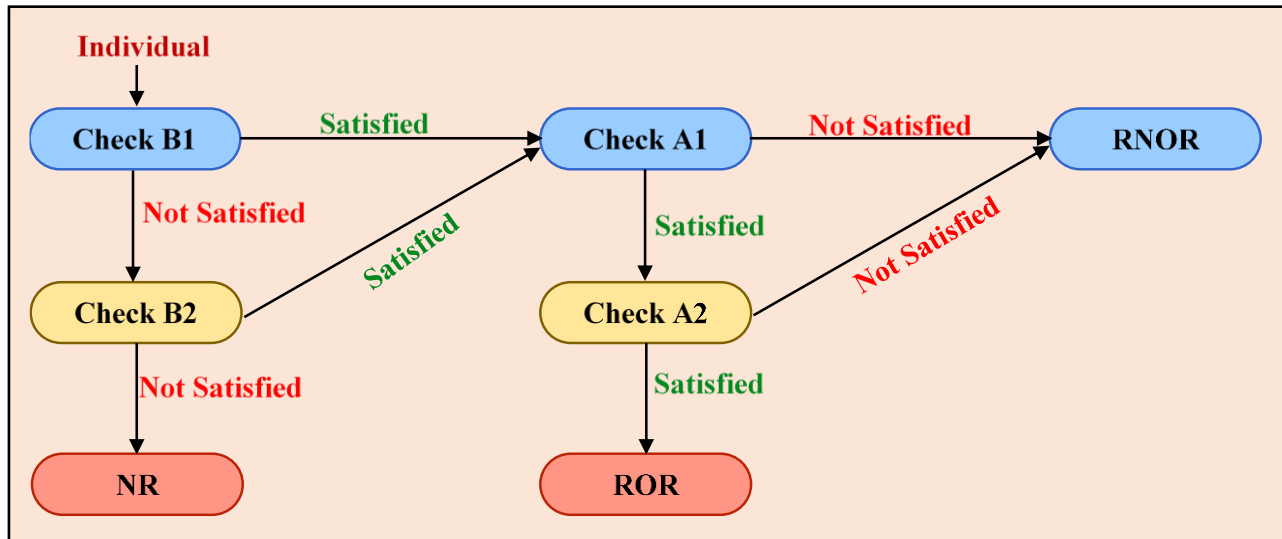
- ✓ Total Income of a person cannot be calculated without determining residential status
- ✓ Residential status is different from Citizenship
- ✓ Residential status changes from one previous year to another previous year.
- ✓ Residential status changes from one Country to another Country.

For the purpose of determining residential status, “person” is classified into 4 categories:



Residential Status of an Individual:

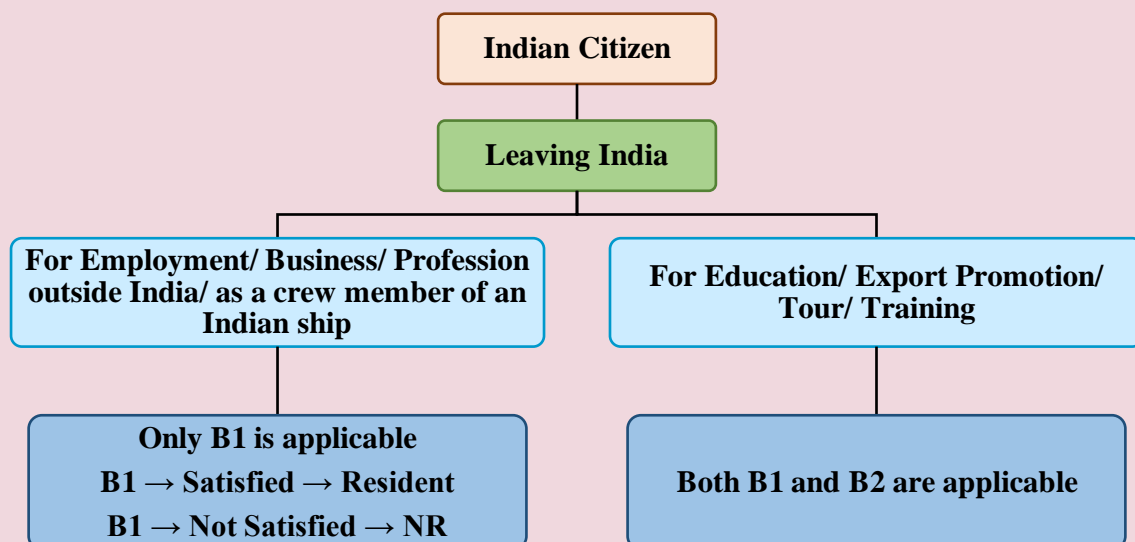




Exceptions to B2: [cases where B2 is not applicable, i.e. only B1 is applicable]

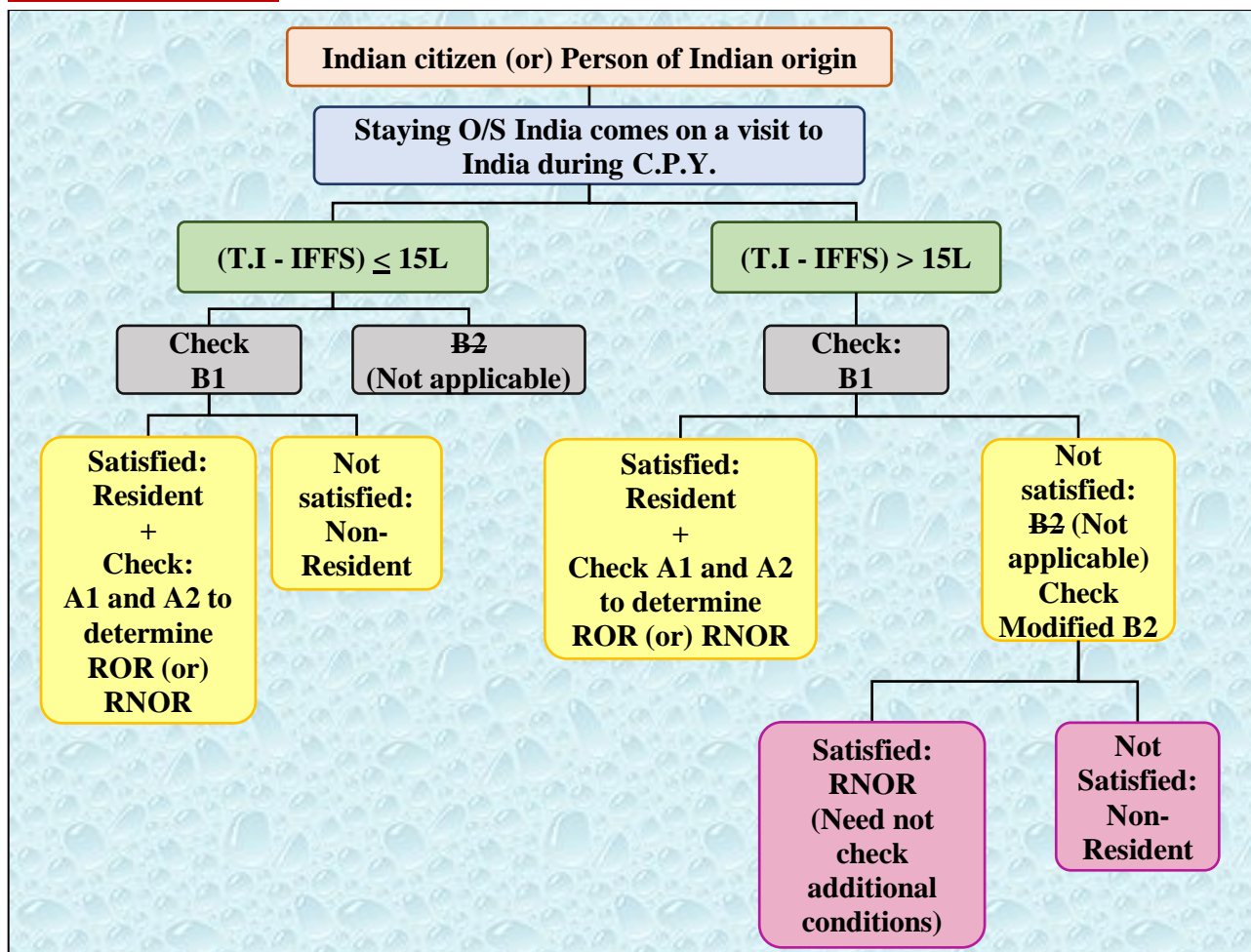
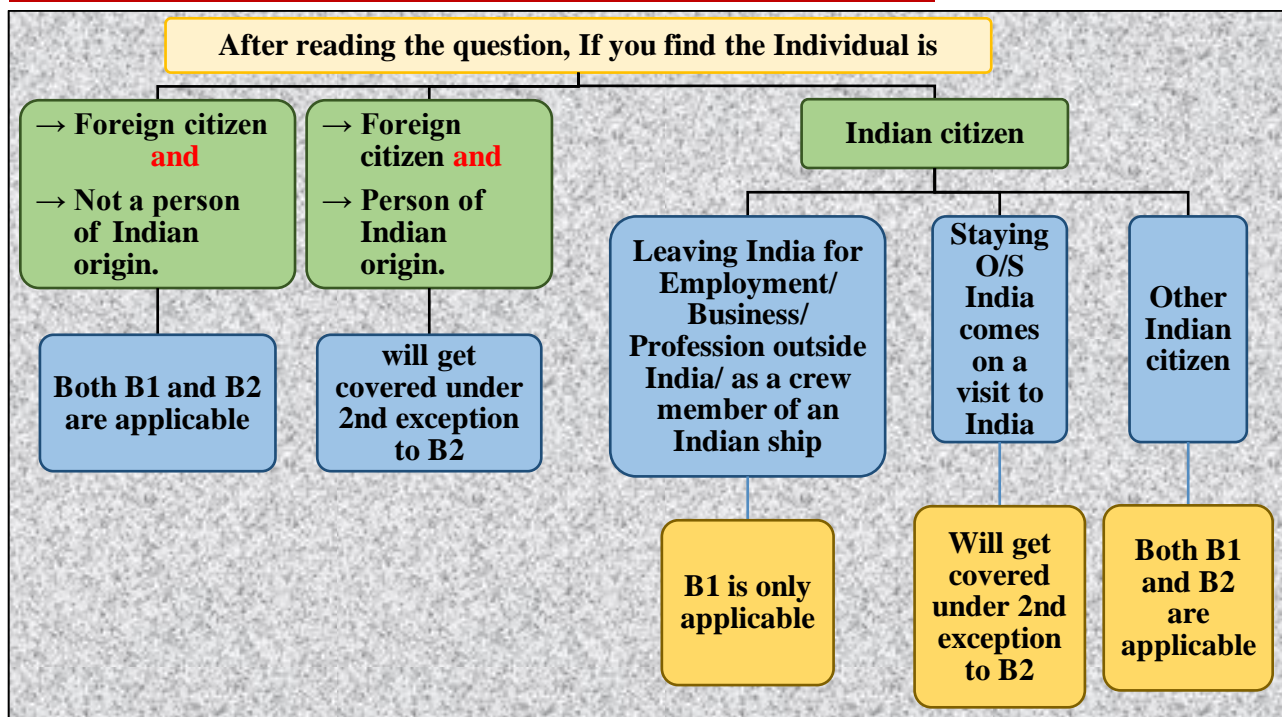
1st Exception to B2:

Applicable only for



STUDENT NOTES:



2st Exception to B2:**How to identify which conditions are applicable to an Individual:**

DEEMED RESIDENT [SECTION 6(1A)]: An individual shall be deemed to be resident in India, if the following conditions are satisfied:

- a) He is a citizen of India &
- b) His total income, other than income from foreign sources exceeds ₹15 lakhs during the previous year &
- c) He is not satisfying any of the basic conditions given u/s 6(1). (i.e., 182 days or 60 days +365 days). &
- d) He is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature.

NOTE:

- Only Indian citizen can be deemed resident. An individual who is not an Indian citizen, but a person of Indian Origin cannot be deemed resident u/s 6(1A).
- Stay in India is not necessary for being a deemed resident u/s 6(1A).

QUESTION: Mr. Avinash, an individual and Indian citizen living in Dubai, since year 2005 and never came to India for a single day since then, earned the following incomes during previous year 2024-25:

| | Particulars | Amount (₹) |
|----|---|------------|
| a) | Income accrued and arisen in Dubai but he is not liable to tax in Dubai | 20,00,000 |
| b) | Income accrued and arisen in India | 5,00,000 |
| c) | Income deemed to accrue and arise in India | 8,00,000 |
| d) | Income arising in Dubai from a profession set up in India | 10,00,000 |

- a) Determine the residential status of Mr. Avinash and taxable income for the previous year 2024-25 (assuming no other income arise during the previous year).
- b) What would be your answer if income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹10 lakhs?
- c) What would be your answer, if Mr. Avinash is not an Indian citizen but his parents were born in India?

SOLUTION:

- a) Mr. Avinash is an Indian citizen living in Dubai since 2005 who never came to India for a single day since then, he would not be a resident in India for the P.Y. 2024-25 on the basis of number of days of his stay in India as per section 6(1).

However, since he is an Indian citizen.

- Having total income (excluding income from foreign sources) of ₹ 23 lakhs, which exceeds the threshold of ₹ 15 lakhs during the previous year; and
- Not liable to tax in Dubai, he would be deemed resident in India for the P.Y. 2024-25 by virtue of section 6(1A). A deemed resident is always a resident but not ordinarily resident in India (RNOR).

| COMPUTATION OF TOTAL INCOME FOR A.Y 2025-26 | | | | |
|--|---------------|----------------|------|------------|
| Particulars | Indian Income | Foreign Income | IFFS | Amount (₹) |
| Income accrued and arisen in Dubai (not taxable in case of an RNOR) | | | | |
| Income accrued and arisen in India (taxable) | | | | |
| Income deemed to accrue or arise in India (taxable) | | | | |
| Income arising in Dubai from a profession set up in India would be taxable in case of RNOR | | | | |
| Total income | | | | |

- b) If income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs, his total income (excluding income from foreign sources) would be only ₹ 15 lakhs. Since the same does not exceed the threshold limit of ₹15 lakhs, he would not be deemed resident. Accordingly, he would be non-resident in India for the P.Y. 2024-25 and hence, his total income would be only ₹ 13 lakhs (aggregate of (ii) and (iii) above i.e., ₹ 5 lakhs + ₹ 8 lakhs).
- c) If Mr. Avinash is not an Indian citizen and his parents were born in India, he would be person of Indian origin. In such case, the provisions relating to deemed resident would not apply to him. Accordingly, he would be non-resident in India during the P.Y. 2024-25 and his total income would be ₹ 13 lakhs.

NOTE:

- a) **INCOME FROM FOREIGN SOURCES:** Income which accrues or arises outside India (except income from a business managed from or profession set up in India) and which is not deemed to accrue or arise in India].

QUESTION: Mrs. Meghana is an Indian citizen, is currently in employment with an overseas company located in UAE. During the previous year 2024-25, she comes to India for 157 days. She is in India for 200 days, 100 days, 76days and 45 days in the financial years 2020-21, 2021-22, 2022-23 and 2023-24 respectively. Her annual income for the previous year 2024-25 is as follows:

| Particulars | Amount (₹) |
|---|------------|
| Income from salary earned and received in UAE | 2,00,000 |
| Income earned and received from a house property situated in UAE | 5,00,000 |
| Income deemed to be accrued and arisen in India | 5,00,000 |
| Income from retail business (accrued and received outside India, controlled from India) | 10,00,000 |
| Income accrued and arisen in India | 3,00,000 |
| Life insurance premium paid by cheque in India | 1,50,000 |

Determine the residential status of Mrs. Meghana for the assessment year 2025-26. (Support your Answer with computation)

SOLUTION:**a) Provision:**

2nd Exception to B2: In case of an Indian citizen or Person of an Indian origin staying outside India and comes to India on a visit during CPY.

- a) If the total income other than income from foreign sources does not exceed 15 Lakhs, then only B1 is applicable.
- b) If the total income other than income from Foreign sourced exceeds 15 Lakhs, then B1 OR Modified B2 is applicable.

b) Analysis:

As Meghana is an Indian Citizen who is in employment outside India and comes to India during the CPY, she will get covered under 2nd exception to B2

We have to check total income other than income from foreign sources for Meghana

| Particulars | Indian Income | Foreign Income | IFFS | Amount (₹) |
|---|---------------|----------------|------|------------|
| Income from salary earned and received in UAE | | | | 2,00,000 |
| Income earned and received from a house property situated in UAE | | | | 5,00,000 |
| Income deemed to be accrued and arised in India | | | | 5,00,000 |
| Income from retail business (accrued and received outside India, controlled from India) | | | | 10,00,000 |
| Income accrued and arised in India | | | | 3,00,000 |
| Life insurance premium paid by cheque in India | | | | 1,50,000 |

Total Income = 25 Lakhs

Income From Foreign Sources = 7 Lakhs

Total Income – Income From Foreign Sources = 18 Lakhs

As (T.I – IFFS) > 15 lakhs, B1 or Modified B2 is applicable

| Condition | Actual stay | |
|--|----------------|---------------|
| B1: Stay in India for at least 182 days during the P. Y | 157 days | Not Satisfied |
| Modified B2: Stay in India for at least 120 days during current P.Y. & 365 days during 4 Yrs. preceding the current P.Y. | 157 & 421 days | Sastisfied |

Conclusion: As Modified B2 is Satisfied by Meghana, she becomes RNOR for P.Y 24-25.

NOTE: Additional conditions are not applicable in this case, hence the assessee will always be treated as **RNOR.**

- a) A person is said to be an Indian origin, if **he** or his parents or Grandparents (paternal or maternal) were born in un-divided India (i.e., before 1947).
- b) Citizenship will depend upon the place of birth whereas the residential status will be determined considering the number of days of stay in India in the current previous year.

- c) While calculating the period of stay in India of a crew member in respect of an eligible voyage, date of entry and date of signing off (as recorded in continuous discharge certificate) shall be excluded.

Eligible voyage: A voyage undertaken by a ship engaged in the carriage of passengers or freight in international traffic where —

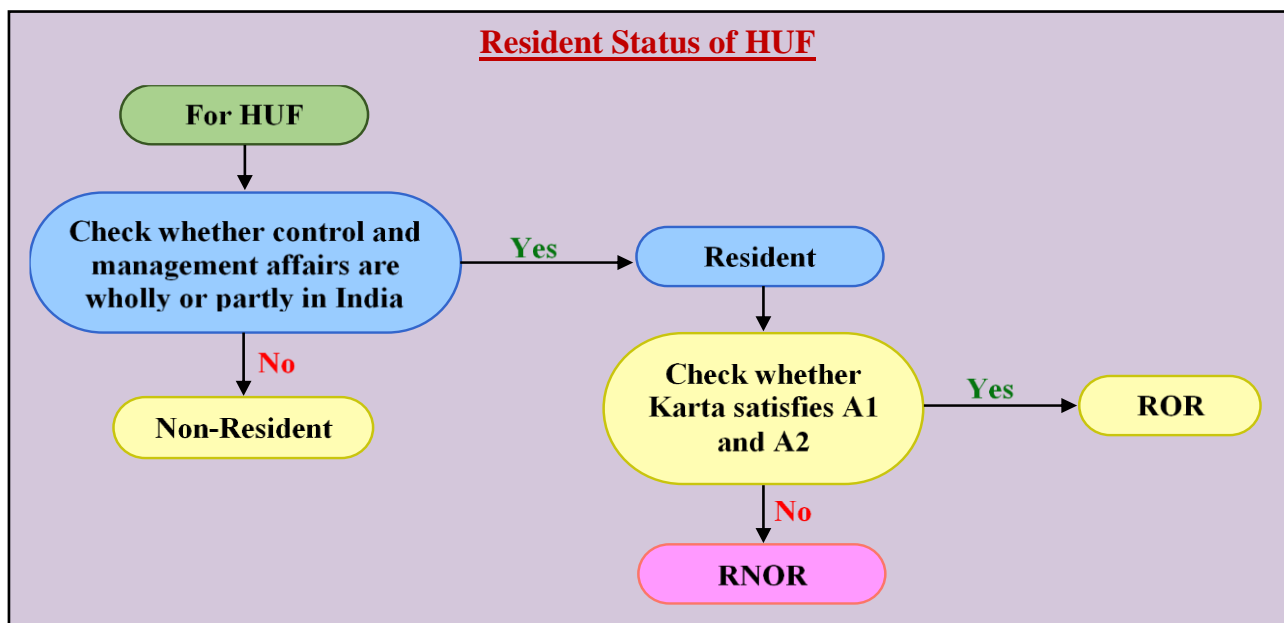
- i. For the voyage having originated from any port in India, has as its destination any port outside India; and
- ii. For the voyage having originated from any port outside India, has as its destination any port in India.

QUESTION: Mr. Satish is an Indian citizen and a member of the crew of a Thailand bound Indian ship engaged in carriage of passengers in international traffic departing from Port Blair on 10th July 2024. His stay in India in the last 4 previous years (preceding P.Y. 2024-25) is 375 days and last seven previous years (preceding P.Y.2024-25) is 729 days:

| Particulars | Date |
|--|--------------------------------|
| Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Kunal | 10 th July, 2024 |
| Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Kunal | 21 st January, 2025 |

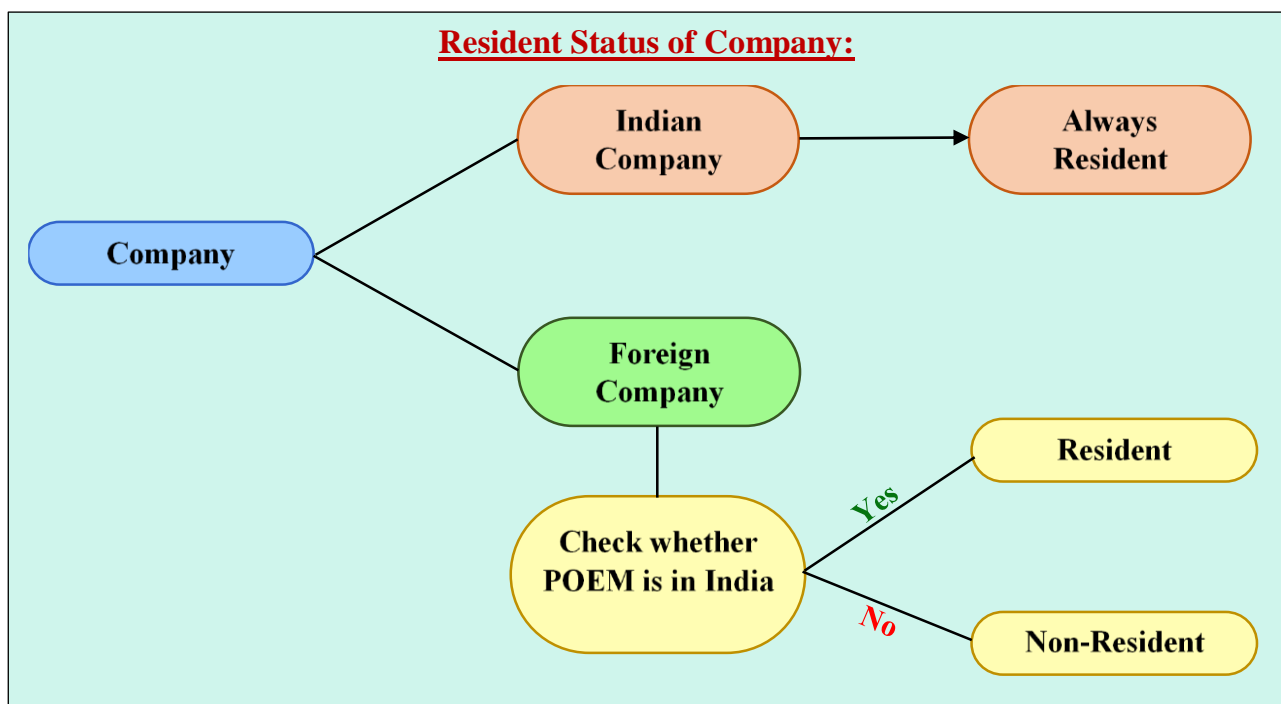
SOLUTION: TO BE DISCUSSED IN THE BOOSTER LECTURE UPLOADED IN THE YOUTUBE.

- d) Stay at the same place in India is not necessary as well as a regular stay is also not necessary. Purpose of stay is also immaterial.
- e) Residential status is always determined on “*hourly basis*” (as stamped in the passport) but if information is not available of the day on which he enters India as well as of the day on which he leaves India, then the day of arrival and the day of departure, both shall be taken into the account.
- f) India includes territorial waters of India. Therefore, stay in territorial waters to be counted.



NOTE POINTS:

- 1) The expression "**control and management**" referred to under section 6 refers to the central control and management and not to the carrying on of day-to-day business by servants, employees or agents.
- 2) The business may be done from outside India and yet its control and management may be wholly within India. Merely because the family has a house in India, where some of the members reside in the previous year, does not constitute that place as the seat of control and management of the affairs of the HUF unless important decisions concerning the affairs of the HUF are taken at that place.
- 3) The place of control may be different from the usual place of running the business and sometimes even the registered office of the assessee. This is because the control and management of a business need not necessarily be done from the place of business or from the registered office of the assessee.

**FOCUS POINTS:** Place of effective management. (POEM)

- 1) "**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.

Generally, the country in which majority of the board meetings are held will be considered to be having place of effective management.

- 2) Ordinary status is not applicable to company assesses.

RESIDENTIAL STATUS OF LOCAL AUTHORITIES AND OTHER PERSONS [FIRM, AOP, BOI]:

- 1) **LOCAL AUTHORITY:** Always be treated as Resident in India.

2) OTHER PERSONS:

- a) **Resident:** Resident in India, if control and management of its affairs is situated wholly or partly in India.
- b) **Non-Resident:** Non-resident, if the control and management of affairs is situated wholly outside India.

NOTE POINTS:

- 1) The expression '**control and management**' referred to under section 6 refers to the central control a management and not to the carrying on of day-to-day business by servants, employees or agents.
- 2) The business may be done from outside India and yet its control and management may be wholly within India,
- 3) Ordinary status is not applicable to other persons.
- 4) The residential status of the individual partners/ members is immaterial while determining the residential status of a Firm/AOP/BOI.

SCOPE OF TOTAL INCOME - SEC.5

Section 5 provides the scope of total income in terms of the residential status of the assessee because the incidence of tax on any person depends upon his residential status in India.

The scope of total income of an assessee depends upon the following three important considerations:

- i. the residential status of the assessee;
- ii. the place of accrual or receipt of income, whether actual or deemed; and
- iii. the point of time at which the income had accrued to or was received by or on behalf of the assessee.

| SYNOPSIS OF SECTION 5 | | | | |
|------------------------------|--|---|---|-------------|
| S. No | Type of Income | ROR | RNOR | NR |
| 1) | Indian Income | Taxable | Taxable | Taxable |
| 2) | Foreign income from business managed from India or a profession set up in India | Taxable, even if such income is not received or brought into India during the previous year | Taxable, but only if such income is derived from a business controlled from or profession set up in India; Otherwise, No. | Not taxable |
| 3) | Foreign income earned in earlier years but later on remitted to India (whether tax incidence arises at the time of remittance) | Not taxable | Not taxable | Not taxable |
| 4) | Foreign income earned during the current PY but later on remitted to India (whether tax incidence arises at the time of remittance.) | Taxable | Not taxable | Not taxable |

| | | | | |
|----|---|-------------|-------------|-------------|
| 5) | Exempted incomes (e.g : agricultural income). | Not taxable | Not taxable | Not taxable |
|----|---|-------------|-------------|-------------|

QUESTION: Compute the total income in the hands of Raghu aged 35 years, being a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the A.Y. 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) –

| Particulars | Amount (₹) |
|---|------------|
| Interest on UK Development Bonds, 50% of interest received in India | 10,000 |
| Income from a business in Chennai (50% is received in India) | 20,000 |
| Profits on sale of shares of an Indian company received in London | 20,000 |
| Dividend from British company received in London | 5,000 |
| Profits on sale of plant at Germany 50% of profits are received in India | 40,000 |
| Income earned from business in Germany which is controlled from Delhi (₹ 40,000 is received in India) | 70,000 |
| Profits from a business in Delhi but managed entirely from London | 15,000 |
| Income from property in London deposited in a Indian Bank at London, brought to India | 50,000 |
| Interest on debentures in an Indian company received in London. | 12,000 |
| Fees for technical services rendered in India but received in London | 8,000 |
| Profits from a business in Bombay managed from London | 26,000 |
| Income from property situated in Nepal received there | 16,000 |
| Past foreign untaxed income brought to India during the previous year | 5,000 |
| Income from agricultural land in Nepal received there and then brought to India | 18,000 |
| Income from profession in Kenya which was set up in India, received there but spent in India | 5,000 |
| Gift received on the occasion of his wedding | 20,000 |
| Interest on savings bank deposit in State Bank of India | 12,000 |
| Income from a business in Russia, controlled from Russia | 20,000 |
| Dividend from Reliance Petroleum Limited, an Indian Company | 5,000 |
| Agricultural income from a land in Rajasthan | 15,000 |

SOLUTION:

| COMPUTATION OF TOTAL INCOME FOR THE A.Y 2025-26. | | | |
|--|---------|------------|--------|
| Particulars | ROR (₹) | RB NOR (₹) | NR (₹) |
| Interest on UK Development Bonds, 50% of interest received in India | | | |
| Income from a business in Chennai (50% is received in India) | | | |
| Profits on sale of shares of an Indian company received in London (assuming that they are in the nature of short-term capital gains) | | | |
| Dividend from British company received in London | | | |

| | | | |
|--|--|--|--|
| Profits on sale of plant at Germany, 50% of profits are received in India | | | |
| Income earned from business in Germany, which is controlled from Delhi, out of which ₹ 40,000 is received in India | | | |
| Profits from a business in Delhi but managed entirely from London | | | |
| Income from property in London deposited in a Bank at London, later remitted to India | | | |
| Interest on debentures in an Indian company received in London | | | |
| Fees for technical services rendered in India but received in London | | | |
| Profits from a business in Bombay managed from London | | | |
| Income from property situated in Nepal received there | | | |
| Past foreign untaxed income brought to India during the previous year | | | |
| Income from agricultural land in Nepal received there and then brought to India | | | |
| Income from profession in Kenya, which was set up in India, received there but spent in India | | | |
| Gift received on the occasion of his wedding [not taxable] | | | |
| Interest on savings bank deposit in State Bank of India | | | |
| Income from a business in Russia, controlled from Russia | | | |
| Dividend from Reliance Petroleum Limited, an Indian Company | | | |
| Agricultural income from a land in Rajasthan Exempt u/s 10(1)] | | | |
| Gross Total Income | | | |
| Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of ₹ 10,000] | | | |
| Total Income | | | |

3. INCOME FROM HOUSE PROPERTY**SECTIONS COVERED:** Sec 22 to 27**CHARGING SECTION:** Section 22**METHOD OF ACCOUNTING:** Accrual Basis except municipal taxes**TAX RATES:** Normal (Default / Optional)**CONDITIONS AS PER CHARGING SECTION (SEC 22)**

- 1) Asset must be a HP and
 - a) Land appurtenant to building means land attached to the building within the compound wall.
Eg: Car garages, garden, cattle shed, swimming pool, cellar.
 - b) Buildings include not only residential buildings, but also factory buildings, offices, shops, godowns and other commercial premises.
 - c) The purpose of usage of building by tenant is not relevant.
 - d) Vacant land is not a HP Rental income from vacant land is taxable under PGBP or IFOS.
- 2) Assessee should be the owner of the HP and
 - a) The requirement of registration of the sale deed is not warranted.
 - b) Ownership includes legal ownership as well as deemed ownership (Sec 27)
 - c) The assessee need not be the owner of the land upon which building is constructed.
 - d) It is sufficient assessee is owner during P.Y (Need not be the owner in A.Y)
 - e) If the title of the ownership of the property is under dispute in a court of law, income tax department will decide as to who is the owner of the HP.
 - f) In case of recovery of unrealized rent and arrears of rent, ownership of that property is not relevant.
 - g) Income from sub-letting is not taxable under HP as assessee is not the owner of HP.
- 3) Assessee shall not use the HP for his own business or profession

If all the above 3 conditions are satisfied, then annual value of HP is taxable under the head IFHP. Otherwise, rental income is taxable under the head PGBP or IFOS.

DEEMED OWNERSHIP (SEC 27)

| SITUATION | DEEMED OWNER |
|--|---|
| 1) Transfer of house property by an individual to his/her spouse otherwise than for adequate consideration. Exceptions: <ol style="list-style-type: none">a) If transfer is made for adequate consideration.b) Transferred to spouse through an agreement to live apart. | Transferor (Husband / Wife) will be treated as deemed owner |
| 2) Transfer of house property by an individual to his/ her minor children for without or inadequate consideration. (i.e., Gift to minor children) | Transferor (Mother or Father) will be treated as deemed owner |

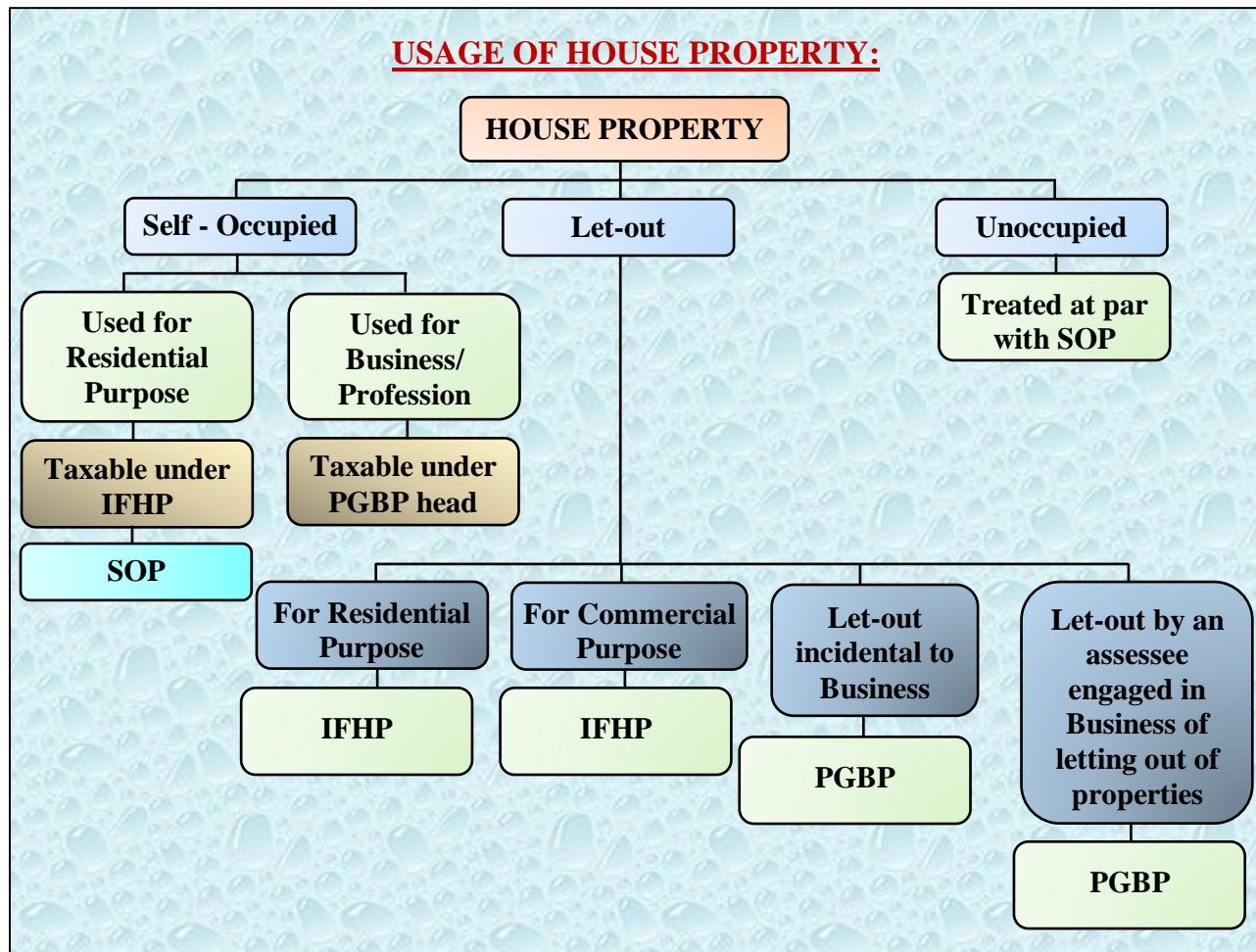
| | |
|--|---|
| <p>Note: Minor excludes minor married daughter.</p> <p>Exception:</p> <p>a) If transfer is made for adequate consideration.</p> <p>Note - Where cash is transferred to spouse/minor child and the transferee acquires property out of such cash, then, the transferor shall not be treated as deemed owner of the property. However, clubbing provisions will be attracted.</p> | |
| <p>3) Allotment/Lease of house property by a co-operative society/Company/AOP to its members under house building scheme.</p> | <p>A member to whom building allotted is treated as deemed owner</p> |
| <p>4) Holder of an impartible estate.</p> <p>Note: impartible estate: It means a property which is not legally divisible.</p> | <p>Holder /Trustee is treated as deemed owner</p> |
| <p>5) Transfer of immovable property under part-performance of a contract (Sec.53A of transfer of property act)</p> | <p>Transferee is deemed owner on satisfaction of conditions specified u/s 53A of Transfer of Property Act.</p> |
| <p>6) A person who acquires right in a building by way of lease for a period of 12 years or more (continuously)</p> | <p>Lessee is treated as deemed owner.</p> <p>Exception – In case the person acquiring any rights by way of lease from month to month or for a period not exceeding one year, such person will not be deemed to be the owner.</p> |

SECTION 53A OF THE TRANSFER OF PROPERTY ACT REQUIRES THE FOLLOWING CONDITIONS:

- a) There must be an agreement in writing between buyer and seller. and
- b) The buyer has paid the consideration or is ready to pay the consideration. and
- c) The buyer has taken possession of the property.

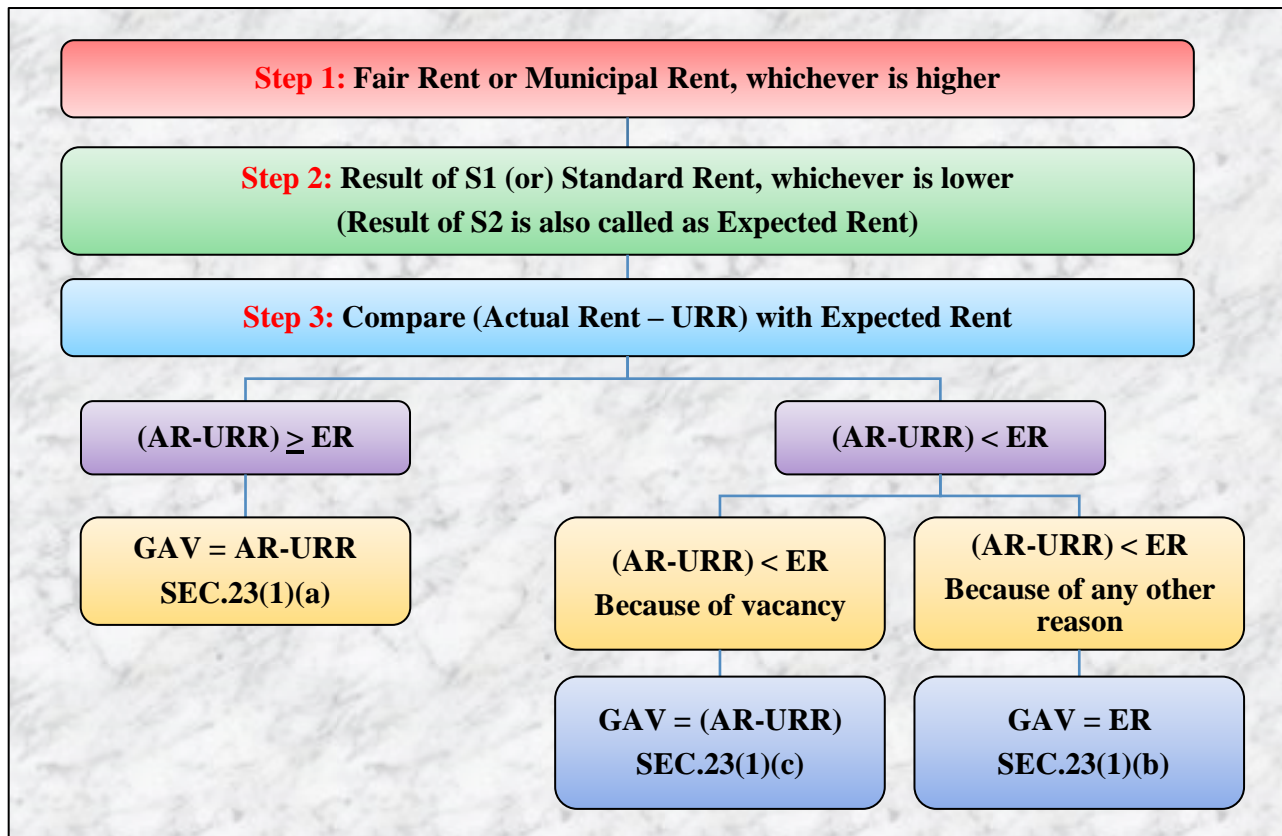
STUDENT NOTES:



**FORMAT FOR COMPUTING INCOME FROM HOUSE PROPERTY**

| PARTICULARS | SOP/UOP | LOP/DLOP |
|------------------------------------|---------|-------------|
| Gross Annual Value (GAV) | - | xxx |
| Less: Municipal taxes paid | - | (xxx) |
| Net Annual value (NAV) | - | xxx |
| Less: Deduction u/s 24 | | |
| a) Standard deduction @ 30% of NAV | - | (xxx) |
| b) Interest on borrowed capital | (xxx) | (xxx) |
| Income From house property | (xxx) | xxx / (xxx) |

- The expression “Un-occupied property (UOP)” refers to a property which cannot be occupied by the owner by reason of his employment, business or profession at a different place and he resides at such other place in a building not belonging to him.
- Self-occupied benefit can be claimed by an Individual and HUF, this benefit is not available to other assessee like company, firm, etc.

COMPUTATION OF GROSS ANNUAL VALUE**NOTES:**

- 1) **Un-realized rent, if any shall be deductible from Actual rent subject to following conditions (i.e., Rule 4 conditions)**
 - a) The tenancy is bonafide. and
 - b) The defaulting tenant has vacated or steps for the same are taken. and
 - c) He is not in occupation of assessee's any other property; and
 - d) The assessee has taken steps for the recovery of the unpaid rent.
- 2) **CONDITIONS FOR APPLICABILITY OF SEC.23(1)(C):**
 - a) The property must be fully let-out property (and)
 - b) HP is vacant during the previous year (and)
 - c) If there is no vacancy, then $AR \geq ER$
- 3) If the HP was purchased / construction was completed during the current previous year, then GAV shall be calculated only for the period for which HP is in existence. (from date of completion certificate to 31st March of P.Y)
- 4) If SR is not given, Result of S1 is considered as ER.
- 5) **DETERMINE GROSS ANNUAL VALUE IN FOLLOWING CASES:**

| Particulars | House 1 | House 2 | House 3 | House 4 | House 5 | House 6 |
|----------------|----------|----------|----------|----------|----------|----------|
| Fair Rent (FR) | 1,00,000 | 1,50,000 | 4,00,000 | 6,00,000 | 4,00,000 | 2,70,000 |

3. INCOME FROM HOUSE PROPERTY

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| | | | | | | |
|----------------------------|----------|----------|----------|----------|----------|----------|
| Municipal Value (MV) | 2,00,000 | 3,00,000 | 5,04,000 | 3,00,000 | 6,00,000 | 3,00,000 |
| Standard Rent (SR) | 1,50,000 | 4,00,000 | - | 2,00,000 | - | - |
| House Rentals (p.m.) | 20,000 | 30,000 | 50,000 | 15,000 | 60,000 | 25000 |
| Let out period (in months) | 12 | 5 | 6 | 7 | 10 | 9 |
| Un-realized Rent (Rule 4) | NIL | NIL | 54,000 | NIL | 90,000 | - |
| Vacancy period | - | 7 | 6 | 5 | 2 | 3 |

ANSWER: Will be discussed in Booster Lecture

ALLOWABILITY OF MUNICIPAL TAXES

- 1) Municipal taxes are allowed as deduction from GAV.
- 2) Conditions for allowability of Municipal Taxes:
 - a) Should be borne by the assessee (Owner) &
 - b) Should be actually paid during the P.Y. (i.e. allowed on cash basis).
- 3) Arrears of rent and advance rent is also allowed as deduction in CPY only if there are paid in CPY.
- 4) Municipal taxes not deductible for SOP/UOP, because in these cases NAV shall be taken as Nil
- 5) For a foreign HP, municipal taxes paid outside India are deductible

DEDUCTIONS U/S 24:

24(a): Standard deduction

- a) 30% of NAV is allowed as deduction
- b) This is a flat deduction and is allowed irrespective of the actual expenditure incurred.
- c) Allowed in place of actual repairs and maintenance, collection charges, fire insurance and painting expenses etc.
- d) Standard deduction is allowed even if expenses are paid by tenant.

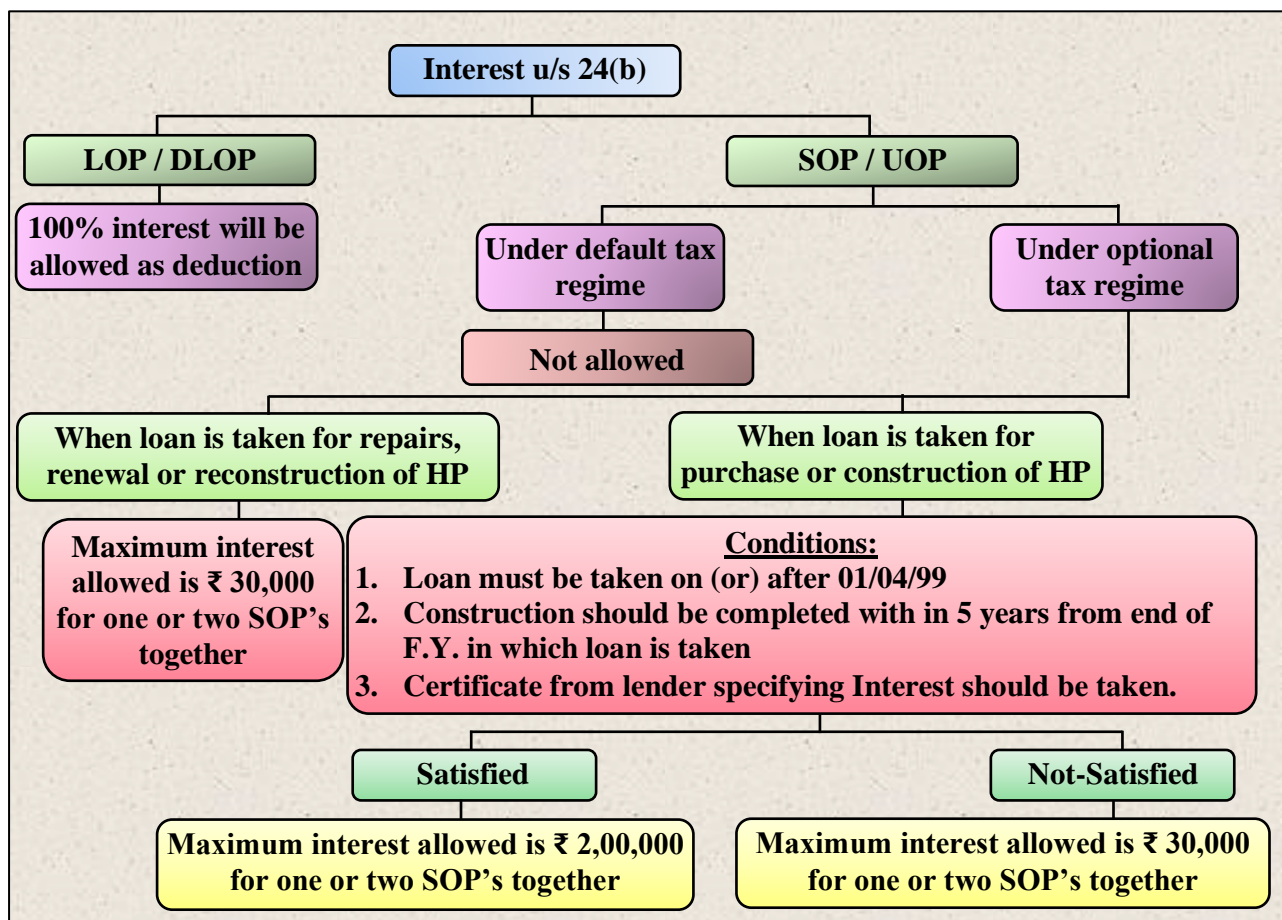
24(b): Interest on borrowed capital

- a) Allowed as deduction on “accrual” basis.
- b) Purpose of Borrowing: Purchase, Construction, Renovation, Repairing and Reconstruction.
- c) Interest u/s 24(b) = Pre- construction period interest + Current year interest
- d) Significant points relating to interest u/s 24(b)
 - If a fresh loan has been raised to repay the original loan, the interest payable in respect of the second loan would also be admissible.
 - Interest on interest will not be allowed as deduction (Generally Penal Interest)
 - This deduction is subject to Sec.25 in some cases (TDS)
 - No deduction is allowed for any brokerage or commission for arranging the loan.

- Interest includes commitment charges.
- No restriction on lenders (i.e. loan can be taken from any person)
- Un paid purchase price would be considered as capital borrowed.
- Principal repayment of loan is eligible for deduction u/s 80C.
- Additional interest is allowed as deduction under Chapter – VIA deductions
 - Up to 50,000 – u/s 80EE
 - Up to 1,50,000 – u/s 80EEA

PRE-CONSTRUCTION PERIOD INTEREST (PCPI):

- Pre-Construction Period:** PCPI will be calculated from the date of borrowing up to 31st March immediately prior to the date of completion of construction.
- If the loan is repaid before the year in which construction is completed, then PCPI will be calculated from the Date of Borrowing till the date of repayment.
- PCPI will be allowed as deduction in 5 equal installments from the year of completion of construction / Purchase.
- The year in which construction is completed (even though construction is completed on 31st March), that year interest will be considered as current year interest and not PCPI.



NOTE: Loss from House property cannot be set off against other heads of income under default tax regime u/s 115BAC etc. (Inter-head setoff is not available). However, under optional tax rates, inter-head set off is allowed up to Rs. 2 lakhs.

- Where the assessee owns more than two SOP's, the annual value of any two of those properties, at the option of the assessee, will be nil and the other properties will be considered as deemed to be let-out properties.
- In case of DLOP, income has to be computed on a notional basis by taking the Expected Rent (ER) as the GAV.
- This option can be changed year after year in a manner beneficial to the assessee.

WHERE A HOUSE PROPERTY IS LET-OUT FOR PART OF THE YEAR AND SELF-OCCUPIED FOR PART OF THE YEAR [SECTION 23(3)]

- If a HP is self-occupied for part of the year and let-out for remaining part of the year, then it'll be considered as DLOP for the whole year.
- In this case, in GAV calculation, In S3: GAV = Actual Rent (or) Expected Rent, whichever is higher
- If fair rent is not given in the question, then AR for whole year will be taken as fair rent

QUESTION: Mr. Jay, who Works with ITC Ltd., owns a house is in Jaipur which was constructed on 1.3.2024 and has been occupied by him for his own residence since then. He took a loan of ₹9,00,000 on 1.8.2022 @ 8% per annum interest for the purpose of construction of this house. The entire loan is still outstanding. The municipal tax and land revenue of the Jaipur house are unpaid.

Mr. Jay was transferred to Mumbai on 1.12.2024 where he resides in a house at a monthly rent of ₹ 40,000 and his house at Jaipur was let out on the same day on a rent of ₹20,000 per month.

Other relevant particulars in respect of these houses are given below:

| Particulars | Jaipur House (₹) |
|------------------------|-----------------------|
| Municipal valuation | 1,80,000 |
| Municipal tax | 8% of Municipal Value |
| Expenses on repairs | 60,000 |
| Fire insurance premium | - |
| Ground rent | 1,300 |
| Land revenue | 6,500 |
| Interest on loan | 72,000 |

Compute the "Income from house property" in respect of Mr. Jay for the assessment year 2025-26 under default tax regime and also calculate the income from house property if he opt out from default tax regime.

IN CASE OF A HOUSE PROPERTY, A PORTION LET OUT AND A PORTION SELF-OCCUPIED:

- If a part of the HP is self-occupied and remaining part of the HP is let-out, then even though physically it is a single HP, for computation of IFHP, it will be considered as 2 different HP's income will be computed separately for let out and self-occupied portion.
- Municipal valuation/fair rent/standard rent, if not given separately, shall be apportioned between the let-out portion and self-occupied portion either on plinth area or built-up floor space or on such other reasonable basis.
- Property taxes, if given on a consolidated basis, can be bifurcated as attributable to each portion or floor or on a reasonable basis.

IN CASE OF A HOUSE PROPERTY HELD AS STOCK-IN-TRADE [SECTION 23(5)]

- In some cases, HP may be held as stock-in-trade, and the whole or any part of the property may not be let out during the whole or any part of the previous year.
- In such cases, the annual value of such property or part of the property shall be Nil.
- This benefit would be available for the period up to two years from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority.

SEC 25A: TAXABILITY OF RECOVERY OF UNREALISED RENT & ARREARS OF RENT RECEIVED

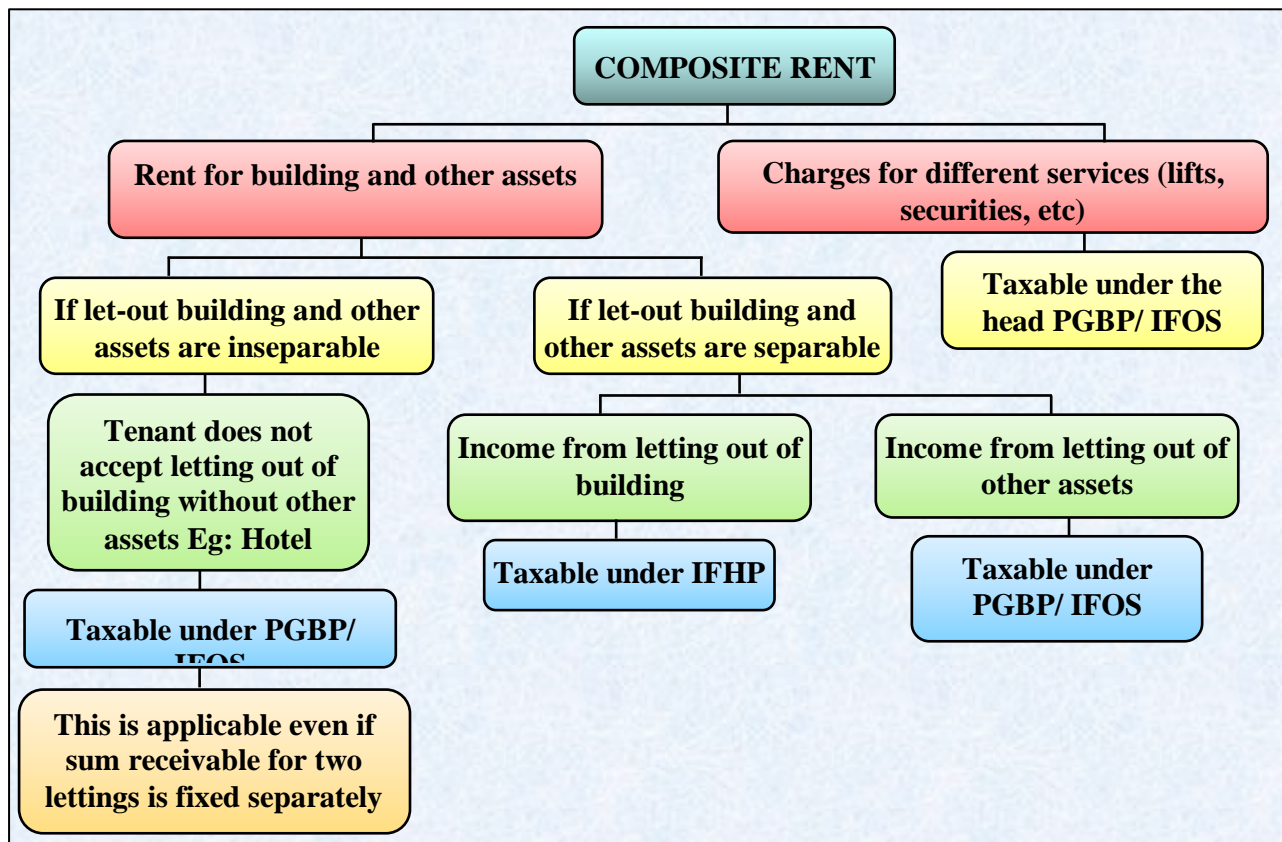
- Taxable in the year of receipt/ realisation
- Deduction @ 30% of rent received/ realised
- Taxable even if assessee is not the owner of the property in the financial year of receipt/ realization

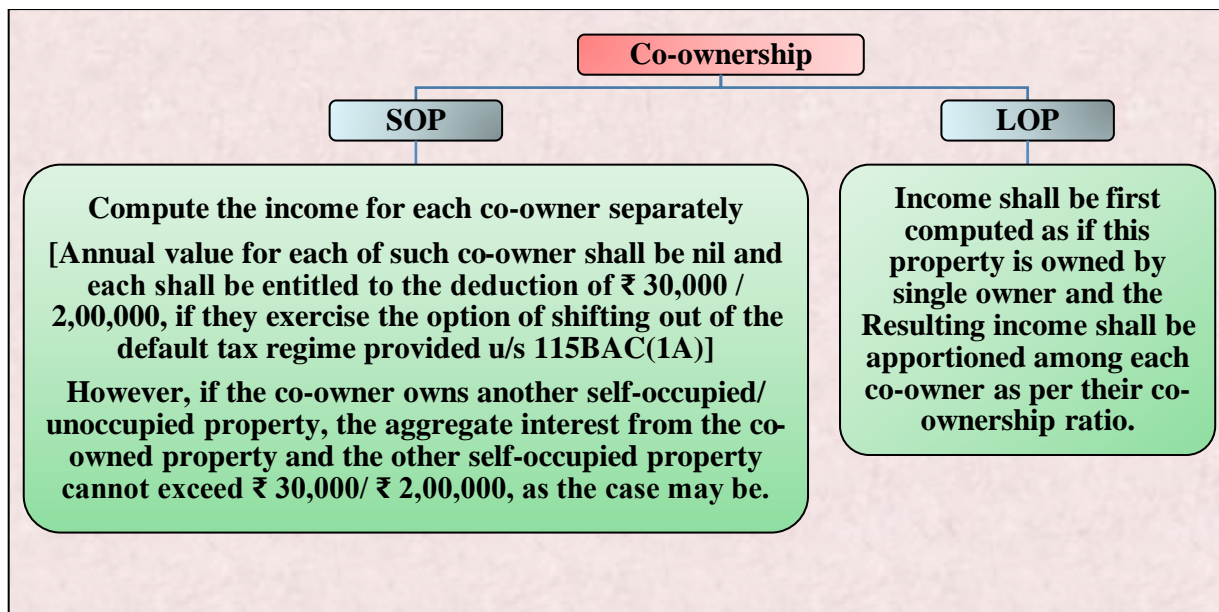
Composite Rent:

The owner of a property may sometimes receive rent in respect of building as well as –

- other assets like say, furniture, plant and machinery.
- for different services provided in the building, for e.g., – (a) Lifts; (b) Security; (c) Power backup;

The amount so received is known as “composite rent”



TREATMENT OF INCOME FROM CO-OWNED PROPERTY

QUESTION: Ms. Aparna co-owns a residential house property in Calcutta along with her sister Ms. Dimple, where her sister's family resides. Both of them have equal share in the property and the same is used by them for self-occupation. Interest is payable in respect of loan of ₹ 50,00,000 @ 10% taken on 1.4.2023 for acquisition of such property. In addition, Ms. Aparna owns a flat in Pune in which she and her parents reside. She has taken a loan of ₹ 3,00,000 @ 12% on 1.10.2023 for repairs of this flat. Compute the deduction which would be available to Ms. Aparna and Ms. Dimple under section 24(b) for A.Y.2025-26, if both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION:

Computation of deduction u/s 24(b) available to Ms. Aparna for A.Y.2025-26

| Particulars | Amount (₹) |
|---|------------|
| Interest on loan taken for acquisition of residential house property at Calcutta ₹ 50,00,000 x 10% = ₹ 5,00,000 Ms. Aparna's share = 50% of ₹ 5,00,000 = ₹ 2,50,000 Restricted to ₹ 2,00,000 | 2,00,000 |
| Interest on loan taken for repair of flat at Pune ₹ 3,00,000 x 12% = ₹ 36,000 Restricted to ₹ 30,000 | 30,000 |
| Total Interest | 2,30,000 |
| Deduction under section 24(b) in respect of (I) and (II) above to be restricted to | 2,00,000 |

Computation of deduction u/s 24(b) available to Ms. Dimple for A.Y.2025-26

| Particulars | Amount (₹) |
|---|------------|
| Interest on loan taken for acquisition of residential house property at Calcutta ₹ 50,00,000 x 10% = ₹ 5,00,000 Ms. Dimple's share = 50% of ₹ 5,00,000 = ₹ 2,50,000 Restricted to ₹ 2,00,000 | 2,00,000 |
| Deduction under section 24(b) | 2,00,000 |

4. INCOME FROM SALARIES**SECTIONS COVERED:** Sec 15 to 17**CHARGING SECTION:** Sec 15**BASIS OF TAXABILITY:** Due or receipt basis, whichever is earlier

Provision as per Sec 15: Any benefits (*Monetary or Non-monetary*) received by employee from his/her employer is taxable to the employee under the head salary.

Pre-condition for taxability: There must be an existence of *employee and employer relationship* between payer and payee (*i.e., principal and servant relation*) for an income to get taxed under the head salaries. Else, taxable under PGBP/IFOS.

In below cases income is not chargeable under Salaries as there is no employer-employee relationship

- Commission received by insurance agents → PGBP/IFOS
- Remuneration received by partners from Partnership Firm → PGBP.
- Pension received by family members of deceased employee → IFOS.
- Directors sitting Fees/Remuneration → IFOS [*If he enters into a contract of employment to serve as a managing director or whole-time director, then the amount received will be taxable under the head salaries*].
- Fees received by director for giving guarantee to loan obtained by company – Taxable under IFOS
- Salary of MP's & MLA's → IFOS
- Amount received for setting university question paper/ valuation of answer sheets – Taxable under IFOS.

NOTE POINTS:

- Employer may be past/ present/ future employer
- Employment can be part-time or full-time employment
- Employee may have more than one employer and salary received from all employers is taxable under Salaries.

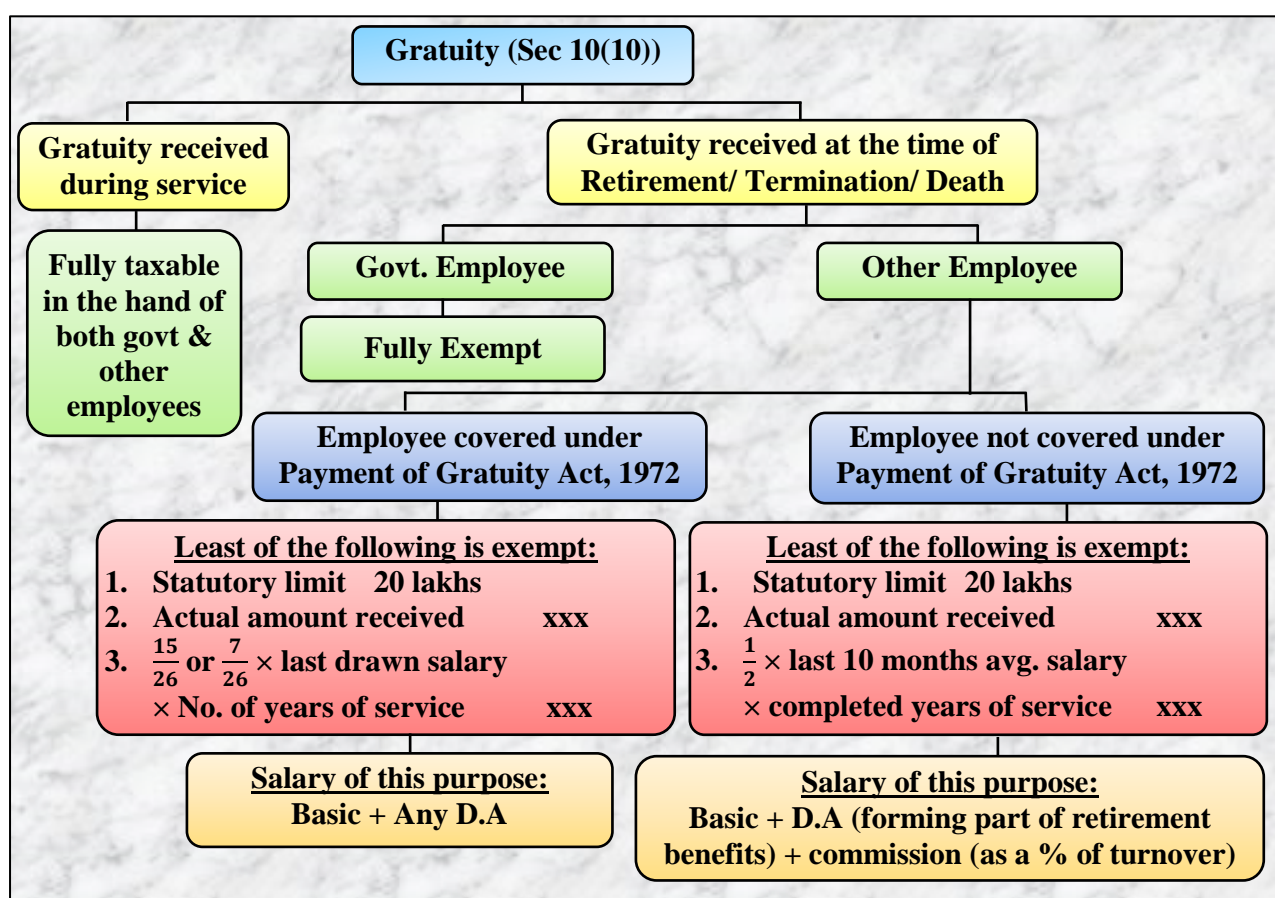
FORMAT FOR COMPUTATION OF INCOME FROM SALARIES

| Particulars | (₹) | Total |
|---|-----|------------|
| Basic Payments | xxx | |
| Taxable value of retirement benefits | xxx | |
| Taxable value of Perquisites | xxx | |
| Taxable value of welfare contributions | xxx | |
| Taxable value of allowances | xxx | |
| Gross salary | | xxx |
| Less: Deductions u/s 16: | | |
| Sec 16(ia): Standard Deduction (allowed under default/ optional tax rates) | xxx | |
| Sec 16(ii): Entertainment allowance (allowed only under optional tax rates) | xxx | |
| Sec 16 (iii): Professional Tax (allowed only under optional tax rates) | xxx | xxx |
| Net Salary | | xxx |

a) BASIC PAYMENTS

- Basic Salary
- Advance Salary (Taxable in year of receipt)
- Arrears of Salary (Taxable in year of receipt, if not taxed on due basis earlier)
- Bonus
- Fees
- Commission as fixed percentage of turnover or fixed commission

The above basic payments are fully taxable for all employees (*i.e., for both government and private employees*)

b) RETIREMENT BENEFITS**A) GRATUITY:****NOTE:**

- Government employee means CG/SG/local authority employees, members of civil service and defence service.
- **Average Salary:** Average salary should be calculated for 10 months preceding the month of retirement.
- This exemption is available only if the relationship of employer and employee exists between payer and payee. (*E.g.: For Gratuity payable by the LIC of India to its insurance agents, exemption u/s 10(10) is not available*).

- Where the gratuity received by an employee from more than one employer in same previous year or in 2 different previous years, the aggregate exemption cannot exceed 20,00,000.
- Where gratuity is received in any earlier previous year from former employer and again received from another employer in a later previous year, the limit of ₹ 20,00,000 will be reduced by the amount of gratuity exempt earlier.
- Gratuity received by legal hires of Government employee is fully exempt from tax.
- **Service:**
Covered under gratuity act – years of service (*> 6 months should be considered as one year*)
Not covered under gratuity act - Completed year of service (Ignore months).
- In case of seasonal employment, instead of 15 days, 7 days shall be considered for an employee who is covered by the payment of gratuity act 1972.

QUESTION:

Mr. Ravi retired on 15.6.2024 after completion of 26 years 8 months of service and received gratuity of ₹ 15,00,000. At the time of retirement, his salary was:

| Particulars | Amount (₹) |
|--------------------|---|
| Basic Salary | 50,000 p.m. |
| Dearness Allowance | 10,000 p.m. (60% of which is for retirement benefits) |
| Commission | 1% of turnover (turnover in the last 12 months was ₹ 1,20,00,000) |
| Bonus | 25,000 p.a. |

Compute his taxable gratuity assuming:

- a) He is private sector employee and covered by the Payment of Gratuity Act, 1972.
- b) He is private sector employee and not covered by Payment of Gratuity Act, 1972.
- c) He is a Government employee.

SOLUTION:

- a) He is covered by the Payment of Gratuity Act 1972

| Particulars | Amount (₹) | Amount (₹) |
|--|------------|-----------------|
| Gratuity received at the time of retirement | | 15,00,000 |
| Less: Exemption under section 10(10) | | |
| Least of the following: | | |
| a) Gratuity received | 15,00,000 | |
| b) Statutory limit | 20,00,000 | |
| c) 15 days' salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months $\frac{15}{26} \times \text{last drawn salary} \times \text{years of service}$ $\frac{15}{26} \times (50,000 + 10,000) \times 27$ | 9,34,615 | (9,34,615) |
| Tax Liability | | 5,65,385 |

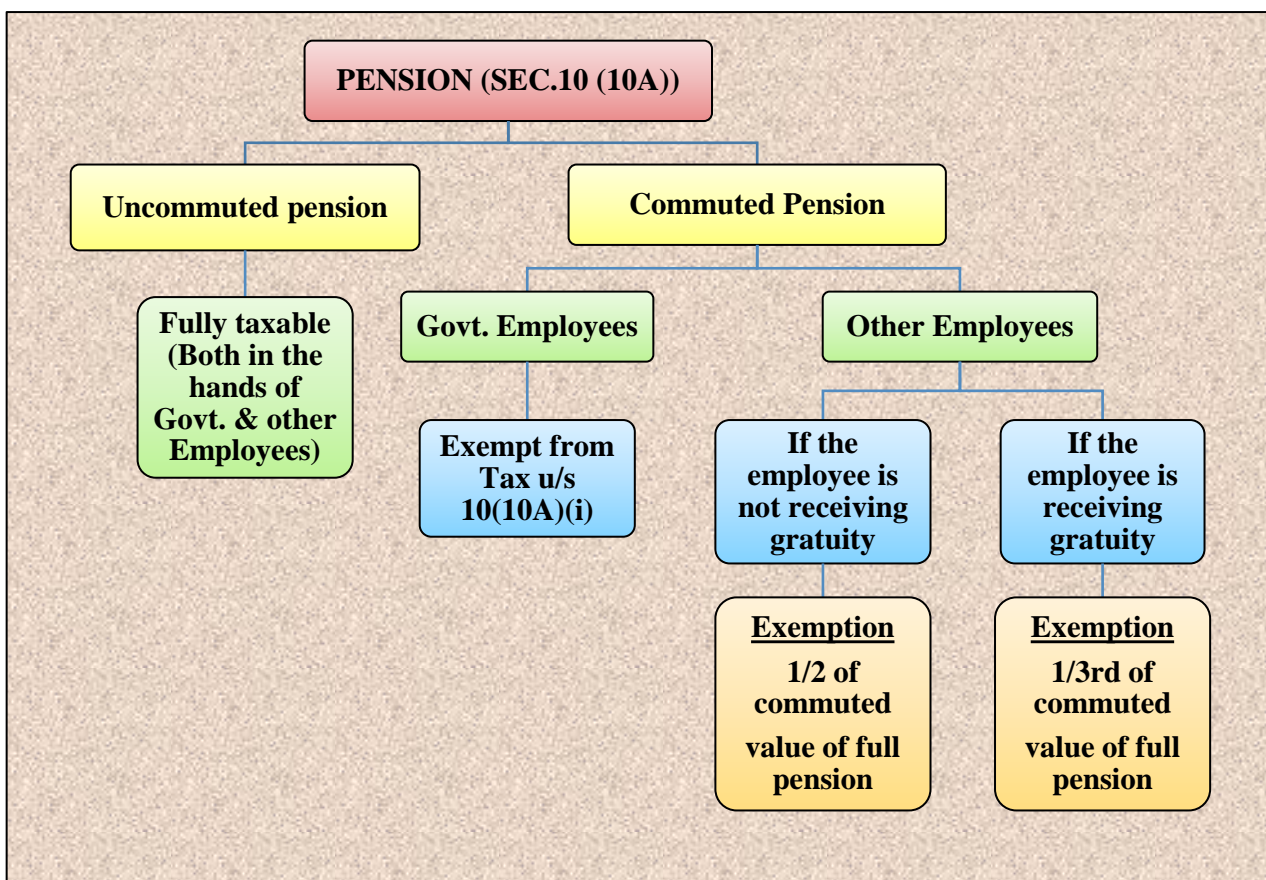
b) He is not covered by the Payment of Gratuity Act 1972

| Particulars | Amount (₹) |
|---|------------|
| Gratuity received at the time of retirement | 15,00,000 |
| Less: Exemption under section 10(10) (Note) | 8,58,000 |
| Taxable Gratuity | 6,42,000 |
| Note: Exemption under section 10(10) is least of the following: | |
| i) Gratuity received | 15,00,000 |
| ii) Statutory limit | 20,00,000 |
| iii) Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service. i.e. $\frac{1}{2} \times \text{Average salary} \times \text{years of service}$ $= \frac{1}{2} \times \frac{[(50,000 \times 10) + (10,000 \times 60\% \times 10) + (1\% \times 1,20,00,000 \times \frac{10}{12})]}{10} \times 26$ | 8,58,000 |

c) He is a government employee

| Particulars | Amount (₹) |
|---|------------|
| Gratuity received at the time of retirement | 15,00,000 |
| Less: Exemption under section 10(10) | 15,00,000 |
| Taxable gratuity | Nil |

B) PENSION:



NOTE:

- **Commuted Pension:** Commutation means inter-change. Commuted pension means lump sum amount taken by commuting the whole or part of the pension. Many persons convert their future right to receive pension into a lumpsum amount receivable immediately.
- Government employee means CG/SG/local authority/ **statutory corporation** employees, members of civil service and defence service.
- Judges of the Supreme Court and High Court will be entitled to the exemption of the commuted portion u/s 10(10A)(i).
- Pension received by family members after the death of employee → Taxable under the head IFOS
- Pension received by family members of armed forces after the death of employee → Exempt.
- **Commuted value of full pension** = amount received on commutation $\times \frac{100}{\text{commutation percentage}}$

QUESTION:

Mr. Sagar who retired on 1.10.2024 is receiving ₹ 5,000 p.m. as pension. On 1.2.2025, 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 private sector employee and received gratuity of ₹ 5,00,000 at the time of retirement.
- c) He is a private sector employee and did not receive any gratuity at the time of retirement.

SOLUTION:

- a) He is a government employee

| Particulars | Amount (₹) | Amount (₹) |
|---|------------|---------------|
| Uncommuted pension received (October – March) [(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)] | | 24,000 |
| Commuted pension received | 3,00,000 | |
| Less: Exemption under section 10(10) | 3,00,000 | Nil |
| Taxable pension | | 24,000 |

- b) He is a private sector employee and received gratuity ₹ 5,00,000 at the time of retirement

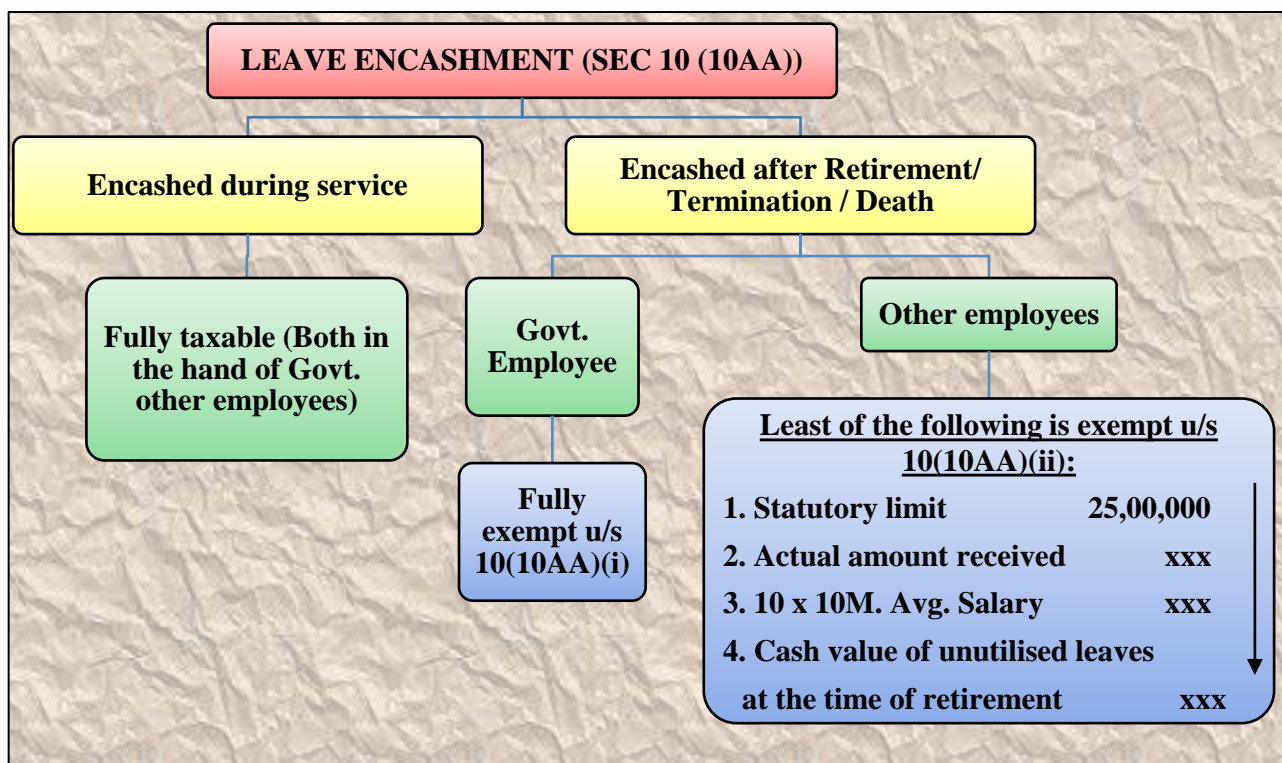
| Particulars | Amount (₹) | Amount (₹) |
|--|------------|-----------------|
| Uncommuted pension received (October – March) [(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)] | | 24,000 |
| Commuted pension received | 3,00,000 | |
| Less: Exemption under section 10(10) $\left[\frac{1}{3} \times \frac{3,00,000}{60\%} \times 100\% \right]$ | 1,66,667 | 1,33,333 |
| Taxable pension | | 1,57,333 |

c) He is a private sector employee and did not receive any gratuity at the time of retirement

| Particulars | Amount (₹) | Amount (₹) |
|--|------------|---------------|
| Uncommuted pension received (October – March) [₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)] | | 24,000 |
| Commuted pension received | 3,00,000 | |
| Less: Exemption under section 10(10) $\left[\frac{1}{2} \times \frac{3,00,000}{60\%} \times 100\% \right]$ | 2,50,000 | 50,000 |
| Taxable pension | | 74,000 |

C) LEAVE ENCASHMENT:

LEAVE SALARY OR LEAVE ENCASHMENT: The payment received on account of encashment of unavailed leave is called leave encashment and it would form part of salary. However, section 10(10AA) provides exemption in respect of amount received by way of encashment of unutilized earned leave by an employee at the time of his retirement, whether on superannuation or otherwise.



NOTE POINTS:

- **Salary:** Basic Salary + D.A (*Forming part of retirement benefits*) + Commission (*% on turnover*)
- **Service:** Completed years only.
- **Cash value of unutilized leaves:**
- | | | | |
|---|---|------------|-----|
| • Leaves as per organization rules (or) | ↓ | xxx | |
| • Leaves as per Income tax rules (30 days for each completed year) | ↓ | xxx | xxx |
| • <i>Less:</i> Availed during service | | <u>xxx</u> | |
| Leave credit (in days) | | xxx | |

- Cash value of unutilized leaves = [Leave credit (in days) * last 10m average salary preceding the date of retirement
- Even in case of voluntary retirement, leave salary received qualifies for exemption.
- Where Leave encashment is received by an employee from 2 or more employers in the same previous year then the aggregate amount of Leave encashment exempt from tax cannot exceed 25,00,000.
- Where the employee has received Leave encashment in any earlier year from his former employer & also receives Leave encashment from another employer in a later year, the limit of 25,00,000 shall be reduced by the previously exempted amount.
- Leave salary received by legal heirs of a government employee after the death of the employee is exempt from tax.

QUESTION:

Mr. Gupta retired on 1.12.2024 after 20 years of service and received leave salary of ₹ 5,00,000. Other details of his salary income are:

| Particulars | Amount (₹) |
|------------------------------|--|
| Basic Salary | 5,000 p.m. (1,000 was increased w.e.f. 1.4.2024) |
| 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 |

He was entitled to 30 days leave every year. You are required to compute his taxable leave salary assuming:

- a) He is a government employee.
- b) He is a non-government employee.

SOLUTION:

- a) He is a government employee

| Particulars | Amount (₹) |
|---|------------|
| Leave Salary received at the time of retirement | 5,00,000 |
| Less: Exemption under section 10(10AA) | 5,00,000 |
| Taxable Leave salary | Nil |

- b) He is a non-government employee

| Particulars | Amount (₹) |
|--|-----------------|
| Leave Salary received at the time of retirement | 5,00,000 |
| Less: Exemption under section 10(10AA) [See Note below] | 26,400 |
| Taxable Leave salary | 4,73,600 |
| Note: Exemption under section 10(10AA) is least of the following: | |
| i) Leave salary received | 5,00,000 |
| ii) Statutory limit | 25,00,000 |
| iii) 10 months' salary based on average salary of last 10 months | |

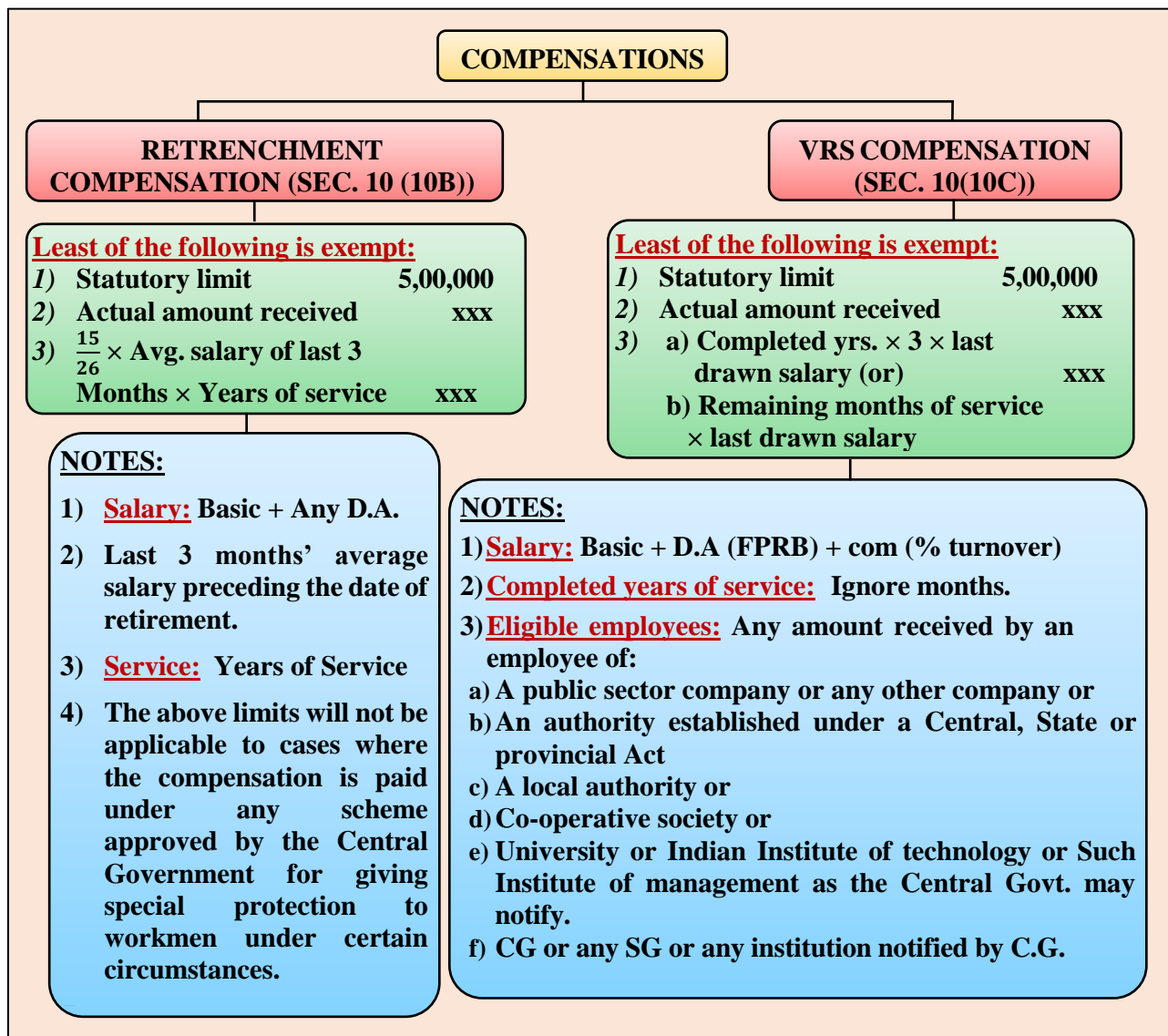
4. INCOME FROM SALARIES

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| | |
|---|--------|
| <p>i.e. $\left[10 \times \frac{\text{Salary of last 10 months i.e. Feb. - Nov}}{10 \text{ months}} \right]$</p> <p>$= \left[10 \times \frac{(5,000 \times 8) + (4,000 \times 2) + (60\% \times 3,000 \times 10)}{10 \text{ months}} \right]$</p> | 66,000 |
| <p>iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max 30 days per year of service) Leave Due = Leave allowed – Leave taken = (30 days per year × 20 years) – 480 days = 120 days</p> <p>i.e. $\left[\frac{\text{Leave due (in days)}}{30 \text{ days}} \times \text{Average salary p. m} \right] = \left[\frac{120 \text{ days}}{30 \text{ days}} \times \frac{66,000}{10} \right]$</p> | 26,400 |

D) COMPENSATIONS:

- Retrenchment compensation means the compensation paid under the Industrial Disputes Act, 1947 or rules etc. made thereunder.
- VRS is the lumpsum payment received (*either 100% or in instalments*) at the time of retirement/ termination of his service (*in the case of public sector company, a scheme of voluntary separation*) and taxed as a profit in lieu of salary unless otherwise exempted under Sec.10 (10C).



NOTE:

- Exemption u/s 10(10C) is available for VRS compensation received at the time of his voluntary retirement or termination of his service, in accordance with any scheme or schemes of voluntary retirement or, in the case of public sector company, a scheme of voluntary separation.
- The exemption will be available even if such compensation is received in installments.
- Rule 2BA prescribes that the exemption under this section would be available to an employee who has completed 10 years of service or completed 40 years of age. However, this requirement is not applicable in case of an employee of a public sector company under the scheme of voluntary separation framed by the company.
- Where exemption for voluntary retirement compensation under section 10(10C) has been allowed in any A.Y., then no exemption thereunder shall be allowed to him in any other A.Y.

QUESTION:

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.

SOLUTION:

| Particulars | Amount (₹) |
|---|------------|
| Retrenchment compensation received | 10,00,000 |
| Less: Exemption under section 10(10B) [Note 1] | 4,32,692 |
| Taxable retrenchment compensation | 5,67,308 |

Note 1: Exemption is to the extent of least of the following:

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

QUESTION:

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.

SOLUTION:

| Particulars | Amount (₹) |
|--|-----------------|
| Voluntary retirement compensation received | 7,00,000 |
| Less: Exemption under section 10(10AA) [See Note below] | 5,00,000 |
| Taxable voluntary retirement compensation | 2,00,000 |
| Note: Exemption is to the extent of least of the following: | |
| i) Compensation actually received | 7,00,000 |

| | |
|---|-----------|
| i) Statutory limit | 5,00,000 |
| ii) 3 months' salary × completed years of service = (₹ 20,000 + ₹ 5,000) × 3 × 30 years | 22,50,000 |
| iii) Last drawn salary × remaining months of service left = (₹ 20,000 + ₹ 5,000) × 6 × 12 months | 18,00,000 |

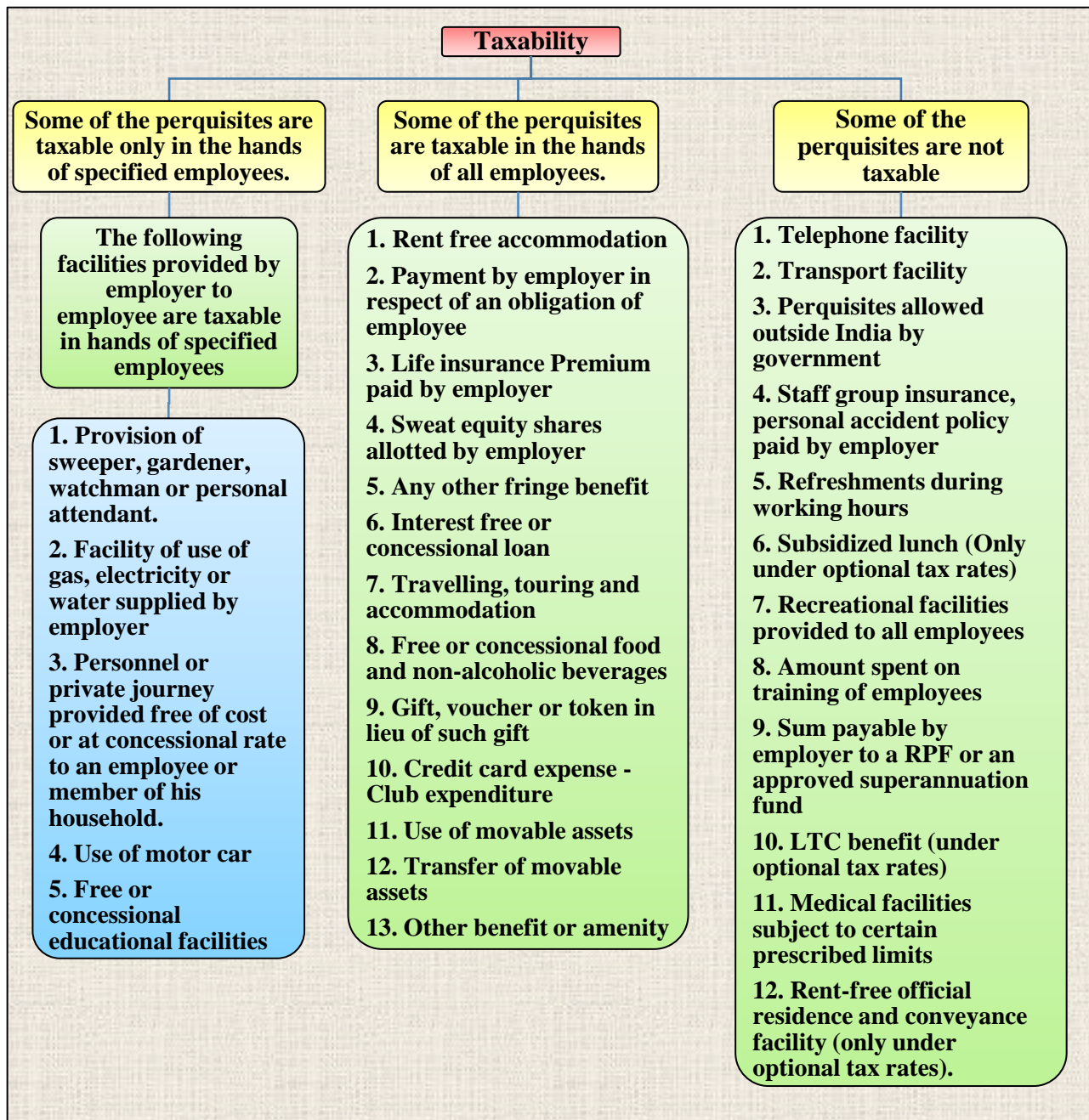
COMBINED ANALYSIS OF RETIREMENT BENEFITS

| Case | Statutory limit | Salary Means | Salary Definition | Service |
|--|-----------------|---|---|----------------------------|
| Non-govt ee covered under POGA, 1972 | 20 lakhs | Last drawn Salary | Basic + Any D. A | Years of Service |
| Non- govt ee not covered under POGA, 1972 | 20 lakhs | Last 10 months avg salary preceding the month of retirement | Basic + D. A (F.P.RB) + Commission (as a % of turnover) | Completed years of service |
| Leave Encashment | 25 lakhs | Last 10 months avg salary preceding the date of retirement | Basic + D.A (F.P.RB) + Commission (as a % of turnover) | Completed years of service |
| Retrenchment Compensation | 5 lakhs | Last 3 months avg salary preceding the date of retirement | Basic + Any D. A | Years of Service |
| V.R.S Compensation | 5 lakhs | Last drawn salary | Basic + D. A (F.P.RB) + Commission (as a % of turnover) | Completed years of service |

c) PERQUISITES:

- Perquisite means extra benefits provided by employer to employees in addition to salary or wages.
- Perquisites may be either in cash or in kind.
- Reimbursement of expenses incurred in the official discharge of duties is not a perquisite.
- Perquisites may be either at free of cost or at Concessional rate.
- Perquisites arise in the course of employment, in the course of profession will be taxable under the head '**Salaries**'/ '**PGBP**', respectively.
- Perquisite will 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*).

STUDENT NOTES:

**SPECIFIED EMPLOYEE:**

If any one of the following conditions are satisfied, then we call such employee as specified employee.

- a) An employee of a company who is also a director is a specified employee (or)
- b) An employee who has substantial interest in the company (or)
- c) An employee whose income chargeable under the head 'salaries' exceeds Rs. 50,000 per annum.

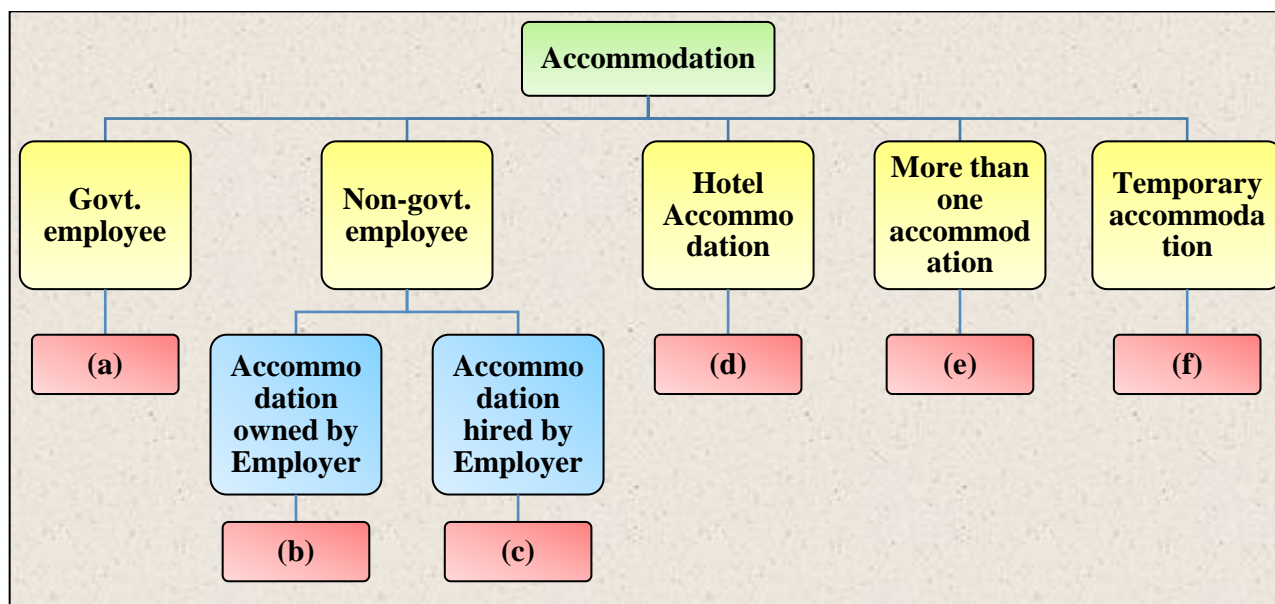
NOTE POINTS:

- 1) While computing ceiling limit of 50,000, following items have to be deducted
 - All non-monetary benefits

- Exempted monetary benefits
- Deductions u/s 16
- Employer's contribution to RPF's.

2) If an employee is employed with more than one employer, the aggregate of the salary received from all employers is to be taken into account in determining the above ceiling limit of Rs. 50,000.

1) VALUATION OF RENT- FREE ACCOMMODATION:



a) Accommodation provided to CG/SG Employee

| Unfurnished Accommodation | Furnished Accommodation |
|---|---|
| <u>Taxable Value of unfurnished accommodation:</u> | <u>Taxable Value of furnished accommodation:</u> |
| License fees fixed by government xxxx | Taxable value of unfurnished accommodation xxx |
| Less: Amount recovered from EE (xxx) | Add: Value of furniture |
| Taxable value of perquisite <u>xxxx</u> | Owned by ER: 10% of cost xxx |
| | Hired by ER: Actual hire charges paid xxx |
| | Less: Amount recovered from EE (xxx) |
| | Taxable value of perquisite <u>xxxx</u> |

Accommodation provided to Non-Govt. Employee

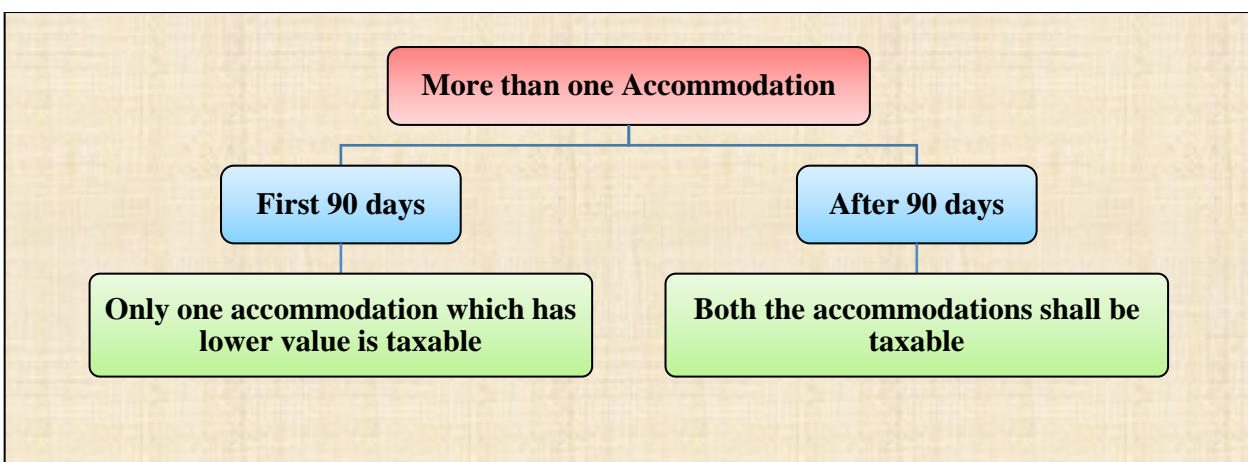
| Unfurnished Accommodation | Furnished Accommodation |
|--|---|
| b) Where accommodation is owned by employer | |
| Location | Perquisite value |
| In cities having a population > 40 lakhs as per 2011 census | 10% of salary |
| In cities having a population > 15 lakhs ≤ 40 lakhs as per 2011 census | 7.5% of salary |
| | <u>Taxable Value of furnished accommodation:</u> |
| | Taxable value of unfurnished accommodation xxx |
| | Add: Value of furniture |
| | Owned by ER: 10% of cost xx |
| | Hired by ER: Actual hire charges paid xx |

| | | | |
|--|--------------|---|-------|
| Cities having population ≤ 15 lakhs | 5% of salary | Less: Amount recovered from EE (xxx) | |
| The perquisite value should be arrived at by reducing the rent, if any, actually paid by the employee, from the above value. | | Taxable value of perquisite | xxxx |
| c) Where the accommodation is taken on lease or rent by employer | | | |
| Lower of the following is taxable: | | <u>Taxable Value of furnished accommodation:</u> | |
| a) actual lease rent paid by employer or | | Taxable value of unfurnished accommodation | xxx |
| b) 10% of salary | xxx | Add: Value of furniture | |
| Less: Amount recovered from EE | (xxx) | Owned by ER: 10% of cost | xx |
| Taxable value of perquisite | xxxx | Hired by ER: Actual hire charges paid | xx |
| | | Less: Amount recovered from EE | (xxx) |
| | | Taxable value of perquisite | xxxx |

d) Where the accommodation is provided by any employer, whether Government or any other employer, in a hotel.

| Unfurnished Accommodation | Furnished Accommodation |
|---------------------------|--|
| Not applicable | <u>Taxable Value of furnished accommodation:</u> |
| | a) 24% of salary or |
| | b) actual hotel charges paid ↓ |
| | Less: Amount recovered from EE (xxx) |
| | Taxable value of perquisite |
| | xxxx |
| | NOTE: However, where the employee is provided such accommodation for a period not exceeding in aggregate 15 days on his transfer from one place to another, there would be no perquisite. |

e) Accommodation provided on account of transfer from one place to another:



- f) Temporary Accommodation:** Nothing is taxable if an accommodation is temporarily provided to an employee working at a mining site or an on-shore oil exploration site or a project execution site, or a dam site or a power generation site or an off-shore site and-
- a)** Such accommodation (*having plinth area not exceeding 1,000 square feet*) is located at least 8 km away from the local limits of a municipality or a cantonment board, **or**
 - b)** Such accommodation (*of any size*) is in a remote area.

Remote area for this purpose means any area which is not located within local limits of (*or within a distance of 30 kms (measured aerially) of local limits of*) any municipality or a cantonment board having a population of 1,00,000 or more based on the 2011 census.

OTHER POINTS: The following points should be kept in view-

- a)** Rent-free official residence provided to a Judge of a High Court or to a Judge of the Supreme Court is not taxable if they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).
- b)** Perquisite is taxable only for the period for which accommodation is occupied by the employee.
- c)** For calculation of RFA, salary accrued for the period for which accommodation is occupied by the employee is to be considered.
- d)** For the purpose of valuation of RFA, Salary includes:
 - a)** Basic Salary
 - b)** D.A (F.P.R.B)
 - c)** Bonus
 - d)** Commission
 - e)** Fees
 - f)** all other taxable allowances (*excluding amount not taxable*)
 - g)** any monetary payment which is chargeable to tax

but does not include:

- D.A (Not F.P.R.B)
- Employer's contribution to PF and interest there on
- Exempted allowances
- Value of perquisites (Sec 17(2))
- Retirement benefits

QUESTION:

In the case of Mr. Marco, the employer provides own accommodation well-furnished at Delhi. The written down value of the furniture works out to ₹ 3,000 whereas the actual cost is ₹ 27,000. Mr. Marco draws ₹ 15,000 p.m. basic pay and ₹ 2,500 as monthly commission.

- a)** Calculate the value of perquisite of rent-free accommodation.
- b)** If, instead of providing the accommodation free of rent, the employer charges ₹ 1,500 p.m. as rent from Mr. Marco, what will be the value of taxable perquisite?
- c)** What is your answer if rent payable by Marco to his employer is ₹ 2,000 p.m.?

SOLUTION:**a) Calculate the value of perquisite of rent-free accommodation:**

| Particulars | Amount (₹) |
|---|---------------|
| Rent Free Unfurnished Accommodation [10% of (15,000 + 2,500) x12] | 21,000 |
| Add: Furniture (27,000 x 10%) | 2,700 |
| Taxable value | 23,700 |

b) If, instead of providing the accommodation free of rent, the employer charges ₹ 1,500 p.m. as rent from Mr. X, what will be the value of taxable perquisite.

| Particulars | Amount (₹) |
|--|--------------|
| Value of furnished accommodation (Refer above) | 23,700 |
| Less: Amount recovered (1,500 x 12) | (18,000) |
| Taxable value | 5,700 |

c) If rent payable by X to his employer is ₹ 2,000 p.m.

| Particulars | Amount (₹) |
|--|------------|
| Value of furnished accommodation (Refer above) | 23,700 |
| Less: Amount recovered (2,000 x 12) | (24,000) |
| Taxable value | 0 |

e) Inflation-linked valuation if same accommodation is provided for more than one year:

Where the same accommodation is continued to be provided to the same employee for more than one year, the valuation in subsequent years will not exceed the first year's valuation adjusted by the Cost Inflation Index (CII).

In this context, the “**first year**” means the financial year 2023-24, or the financial year in which the accommodation is provided to the employee, whichever is later. Valuation for the subsequent year shall not exceed the adjusted value calculated as per the formula given below:-

$$= \text{First year's perquisite value} \times \frac{\text{CII of the subsequent year}}{\text{CII of the first year}}$$

The CII of the financial years 2023-24 and 2024-25 are 348 and 363, respectively.

QUESTION:

X is the Chief Financial Officer of A Ltd. (since April 1, 2024 when he joined A Ltd. For the first time) and posted in Mumbai. He gets the following salary/ allowance/ perquisite:

| Different previous years | Salary per month (₹) | Special allowance per month (₹) | Total (₹) | Rent-free house provided to X in Mumbai |
|--------------------------|----------------------|---------------------------------|-----------|---|
| 2024-25 | 5,00,000 | 50,000 | 5,50,000 | House is owned by employer, original cost of furniture owned by employer and provided along with house ₹ 8,00,000 |
| 2025-26 | 5,60,000 | 55,000 | 6,15,000 | The same house is provided |
| 2026-27 | 5,85,000 | 55,000 | 6,40,000 | The same house is provided |

4. INCOME FROM SALARIES

X wants to know the perquisite value in respect of rent-free furnished house for the assessment years 2025-26, 2026-27 and 2027-28. CII for the financial year 2024-25 is 363. Assume that CII for the financial years 2025-26 and 2026-27 will be 392 and 416, respectively.

SOLUTION:

Perquisite valuation (*ignoring inflation-linked adjustment*) is as follows-

| Different previous years | Valuation of | | |
|--------------------------|--|---------------------------------------|-----------------|
| | Unfurnished house | Furniture | Furnished house |
| 2024-25 | ₹ 6,60,000 (i.e., 10% of ₹ 5,50,000 × 12) | ₹ 80,000 (i.e., 10% of ₹ 8,00,000) | ₹ 7,40,000 |
| 2025-26 | ₹ 7,38,000 (i.e., 10% of ₹ 6,15,000 × 12) | ₹ 80,000 | ₹ 8,18,000 |
| 2026-27 | ₹ 7,68,000 (i.e., 10% of ₹ 6,40,000 × 12) | ₹ 80,000 | ₹ 8,48,000 |

Inflation-linked adjustments: The house which is provided during the previous year 2024-25 is continued during previous years 2025-26 and 2026-27. Perquisite value for these previous years cannot exceed inflation-linked value which is calculated as follows-

| previous years | Perquisite value without adjustment | Inflation-linked value | Taxable value of the perquisite (<i>being the lower of earlier two columns</i>) |
|----------------|-------------------------------------|---|---|
| 2024-25 | 7,40,000 | No adjustment required | 7,40,000 |
| 2025-26 | 8,18,000 | ₹ 7,99,118 (i.e., ₹ 7,40,000 × $\frac{392}{363}$) | 7,99,118 |
| 2026-27 | 8,48,000 | ₹ 8,48,044 (i.e., ₹ 7,40,000 × $\frac{416}{363}$) | 8,48,000 |

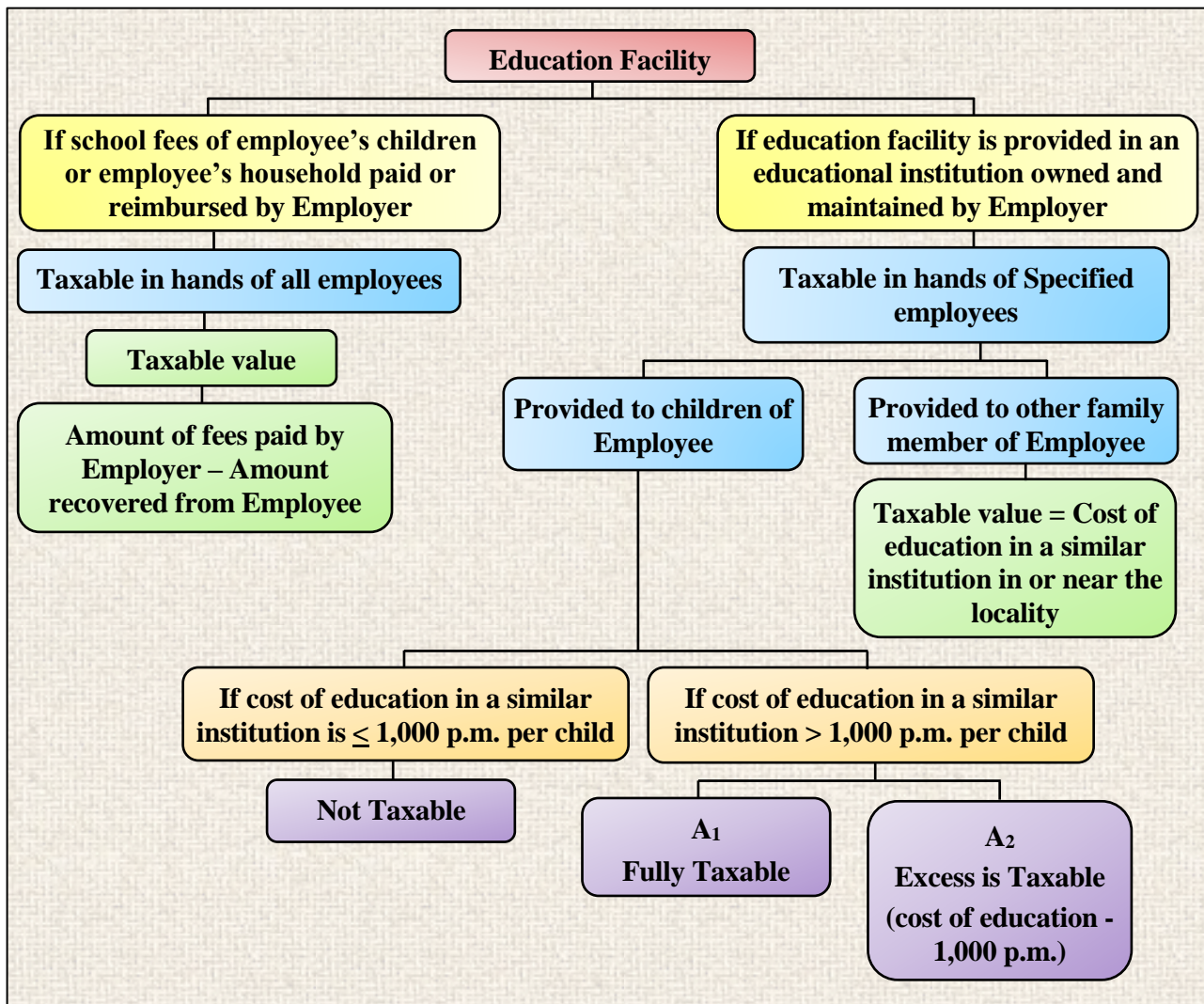
2) DOMESTIC SERVANT FACILITY:

| Servant Appointed By | Salary | Taxable in the hands of | Value of Perquisite |
|----------------------|--------------------------------|-------------------------|--|
| Employer | Paid by Employer | Specified Employee | Salary paid by employer – Amount recovered from employee |
| Employee | Paid or reimbursed by employer | All Employees | |

Note: Domestic Servant allowance is fully taxable.

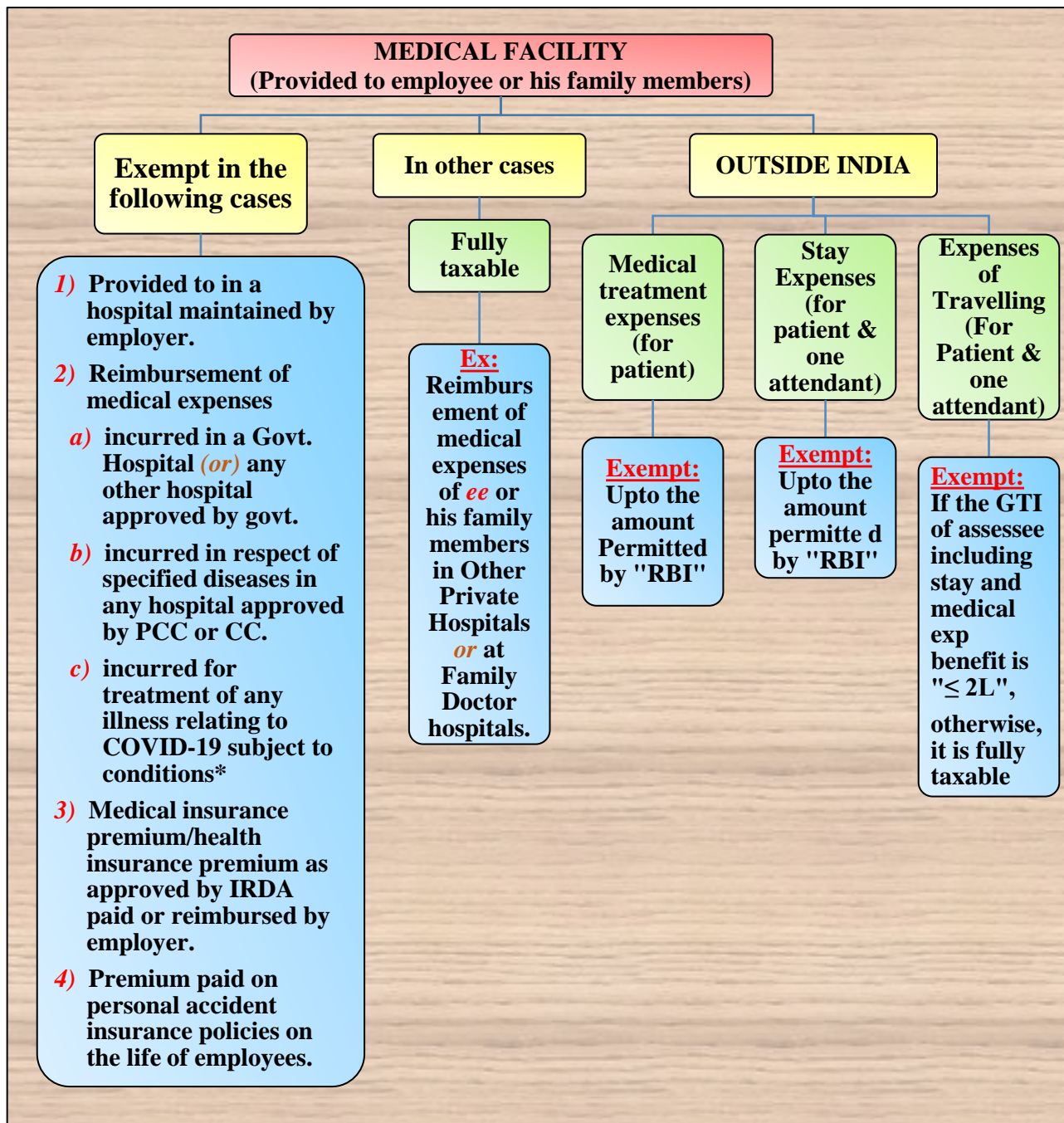
3) GAS, WATER AND ELECTRICITY:

| Gas, Water, Electricity connection | Bills | Taxable in the hands of | Taxable Value | Gas, Water, Electricity Produced by employer |
|------------------------------------|--------------------------------|-------------------------|--|---|
| in the name of employee | Paid or reimbursed by Employer | All employees | Actual charges paid by employer – amount recovered from employee | Taxable Value = Manufacturing cost of facility provided (Less) Amount recovered from employee |
| in the name of employer | Paid by Employer | Specified employees | | |

4) EDUCATION FACILITY:**NOTE:**

- 1) Expenditure spent on training of employees including food and staying expenses is not taxable to the employee and is fully exempt.
- 2) Exemption available to any number of children.
- 3) If any amount is recovered from employee, it shall be deducted from taxable value

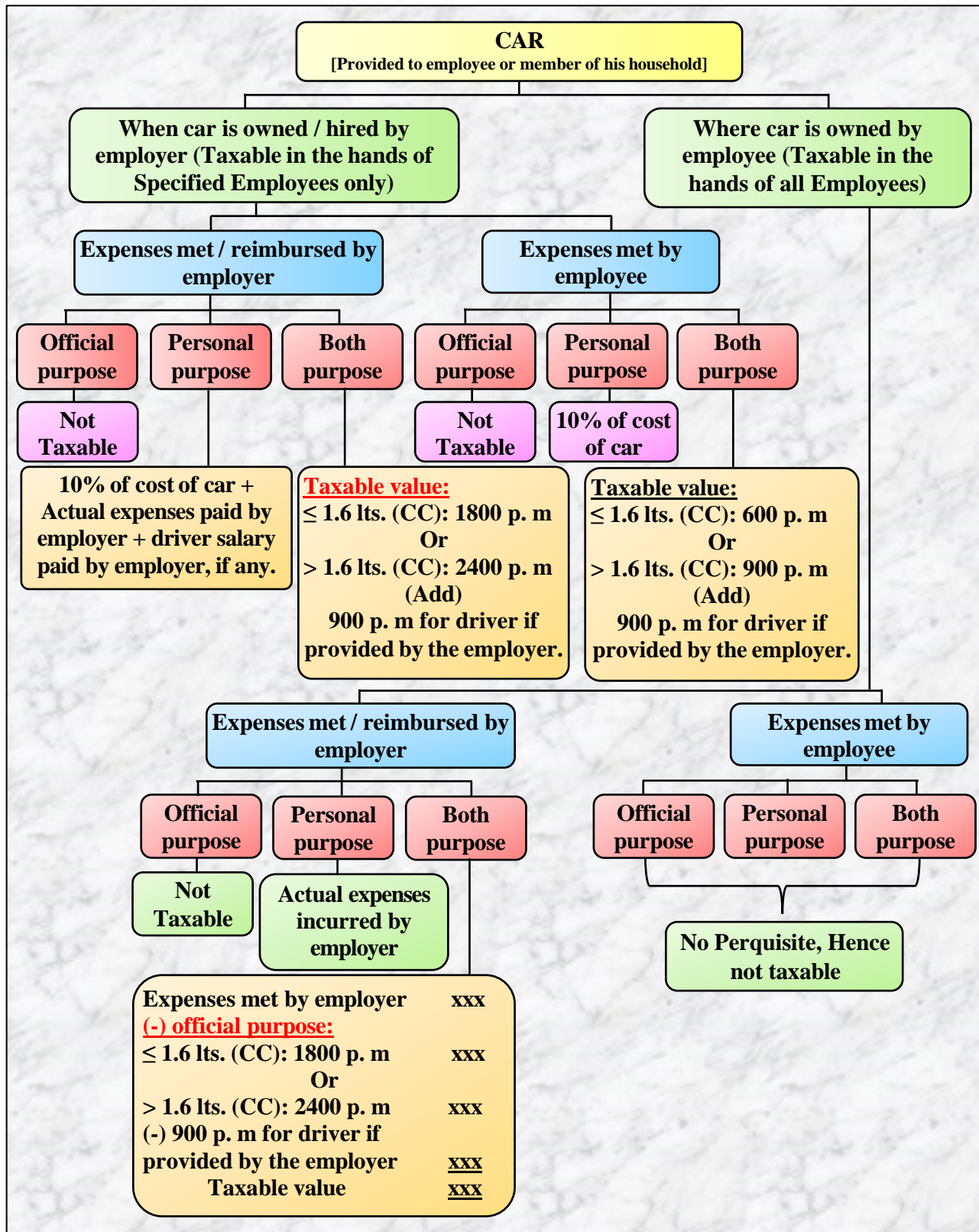
STUDENT NOTES:

5) MEDICAL FACILITY:NOTE:

- 1) **Medical Allowance:** Fully taxable.
- 2) **Family includes:** Spouse, any children (dependent or independent, married or unmarried), dependent parents, dependent brothers and sisters.
- 3) For claiming benefit of such exemption, the employee has to submit the following documents to the employer, –
 - a) COVID-19 positive report of patient.
 - b) Medical diagnosis documents related to COVID-19 suffered within 6 months from date of being determined as positive.

c) COVID-19 medical expense certificate from doctor.

6) CAR FACILITY:



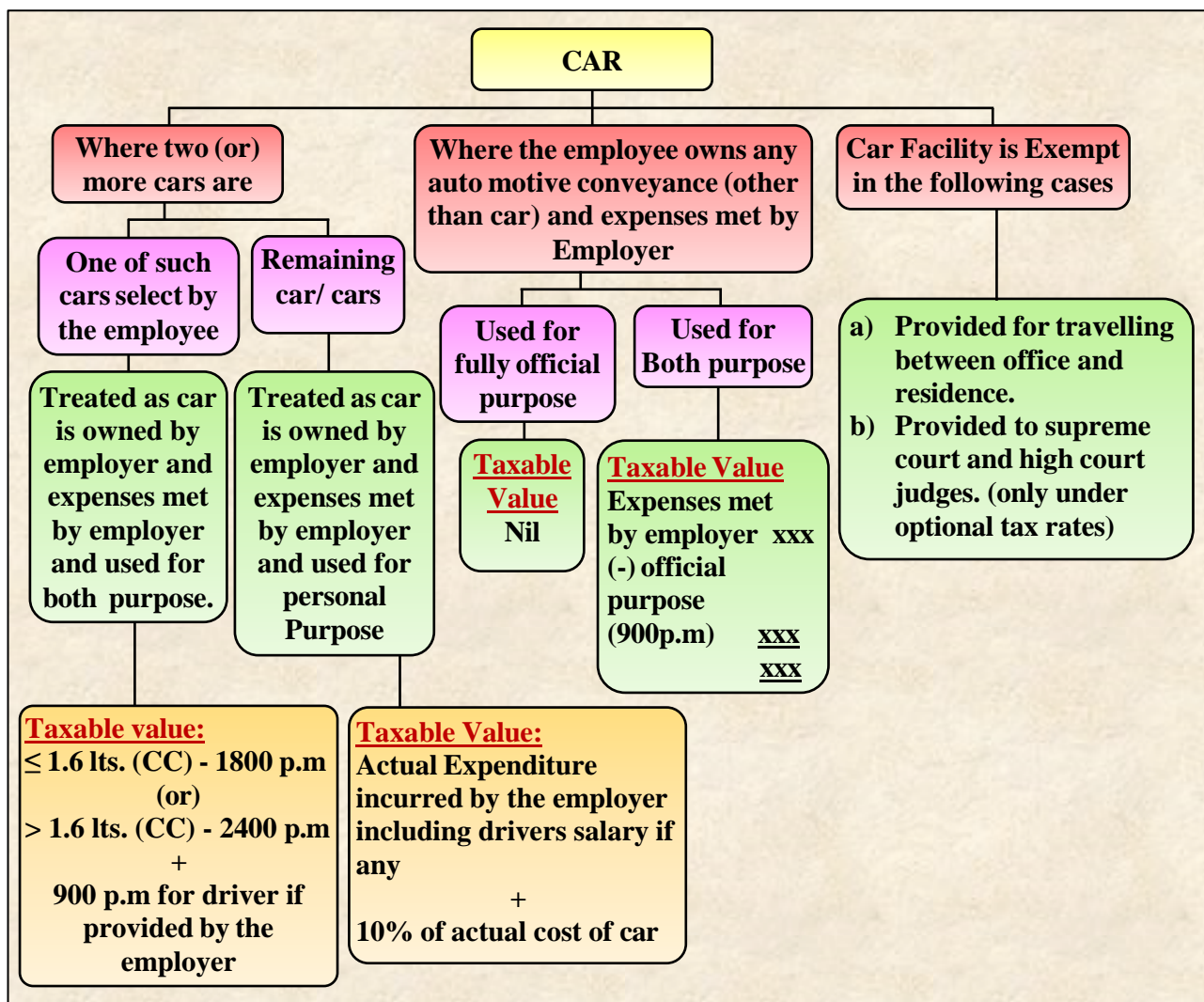
DOCUMENTS TO BE MAINTAINED IN CERTAIN CASES:

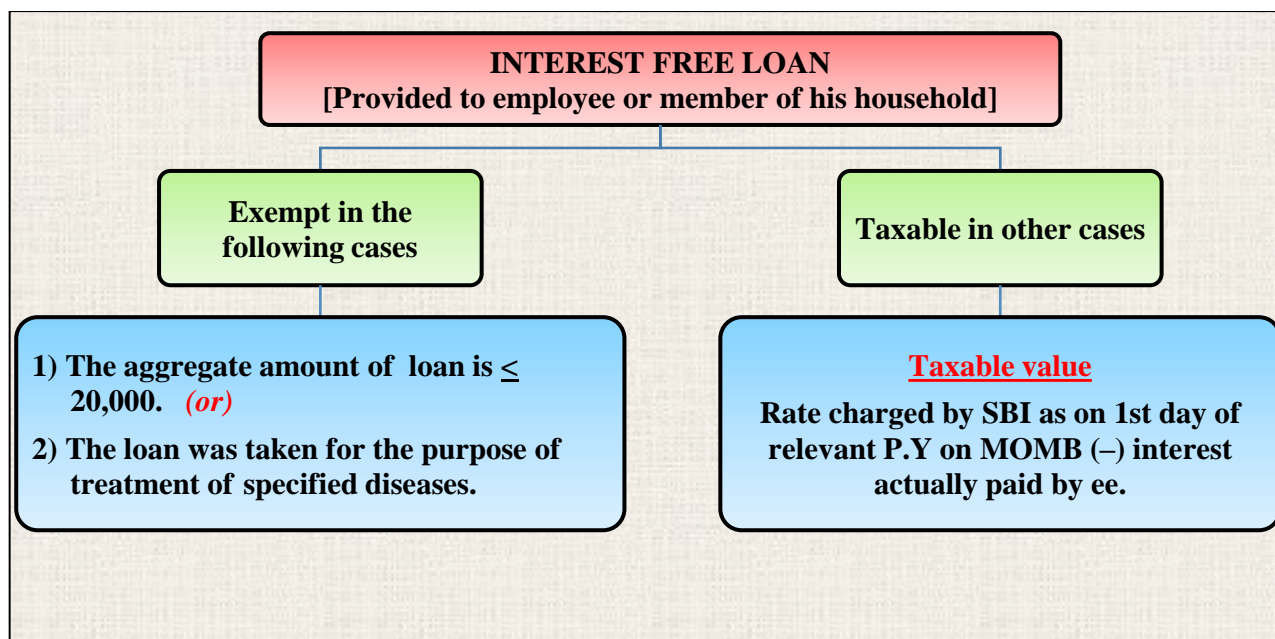
Where the employer or the employee claims that the motorcar is used

- i) Exclusively in the performance of official duty or
- ii) Actual maintenance expenses for official purpose are > 1,800 (or) 2,400 p.m

Then he can claim actual maintenance expenses for official purpose subject to below conditions.

- a) The employer has maintained complete details of journey undertaken for official purpose which may include date of journey, destination, mileage, and the amount of expenditure incurred thereon.
- b) The employer gives a certificate to the effect that the expenditure was incurred wholly and exclusively for the performance of official duties.

**STUDENT NOTES:**

7) INTEREST FREE LOAN:**NOTES:**

- 1) Maximum outstanding monthly balance (MOMB) means outstanding balance as on the last day of each month.
- 2) If a closely held co. gives a loan to an employee who holds at least 10% voting power, such loan is deemed as dividend u/s 2(22)(e). Even in such a case, the perquisite value of interest loan is chargeable to tax.
- 3) Notional interest on interest free security deposit given by the employer (*for flat belonging to employee taken on lease*), cannot be treated as perquisite.

QUESTION:

The following benefits have been granted by Global Software Ltd. to one of its employees Mr. Babu: Housing loan @ 6% per annum. Amount outstanding on 01.04.2024 is ₹ 6,00,000. Mr. Babu pays ₹ 12,000 per month towards principal, on 5th of each month.

The lending rate of State Bank of India as on 01.04.2024 for housing loan may be taken as 10%. Compute the chargeable perquisite in the hands of Mr. Babu for the A.Y. 2024-25.

SOLUTION:

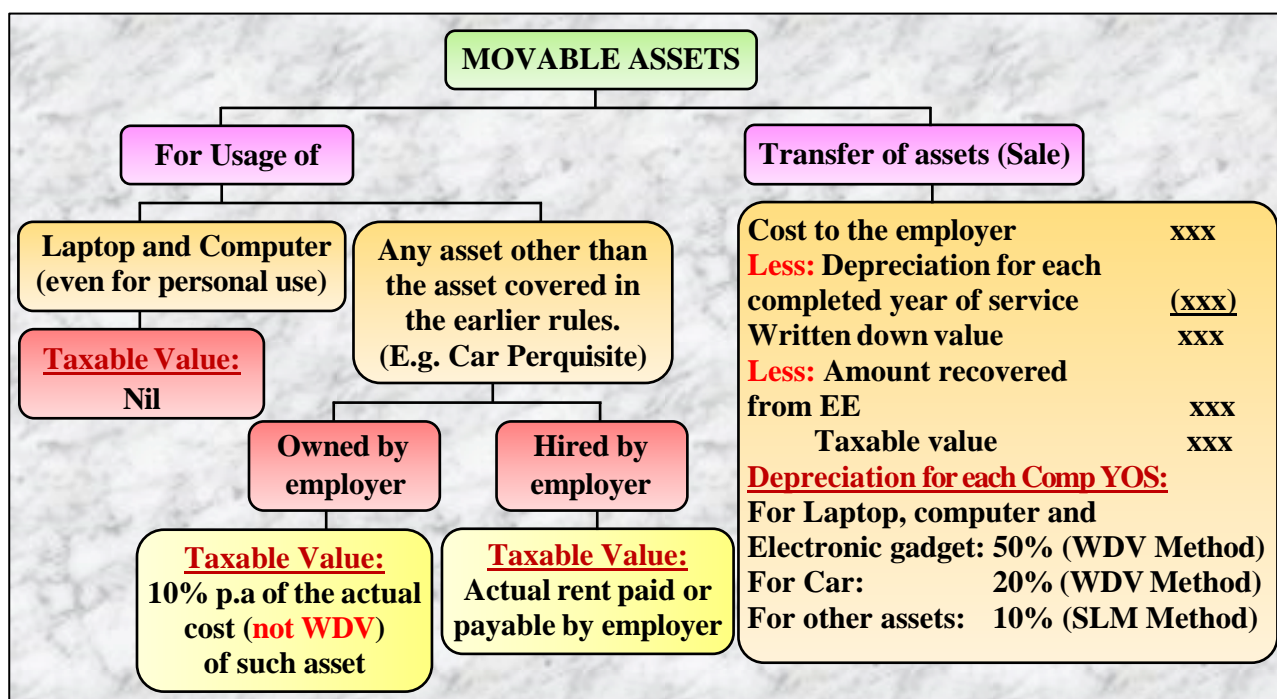
Calculation of taxable value

| Month | Maximum Outstanding Monthly Balance | Interest |
|-------|-------------------------------------|----------|
| April | 5,88,000 | |
| May | 5,76,000 | |
| June | 5,64,000 | |
| July | 5,52,000 | |
| Aug. | 5,40,000 | |
| Sep. | 5,28,000 | |

| | | |
|------|----------------------|--|
| Oct. | 5,16,000 | |
| Nov. | 5,04,000 | |
| Dec. | 4,92,000 | |
| Jan. | 4,80,000 | |
| Feb. | 4,68,000 | |
| Mar. | 4,56,000 | |
| | Taxable value | |

The perquisite value for computation: SBI rate - Rate charged by employer (i.e., 10% - 6% = 4%)

8) MOVABLE ASSETS:

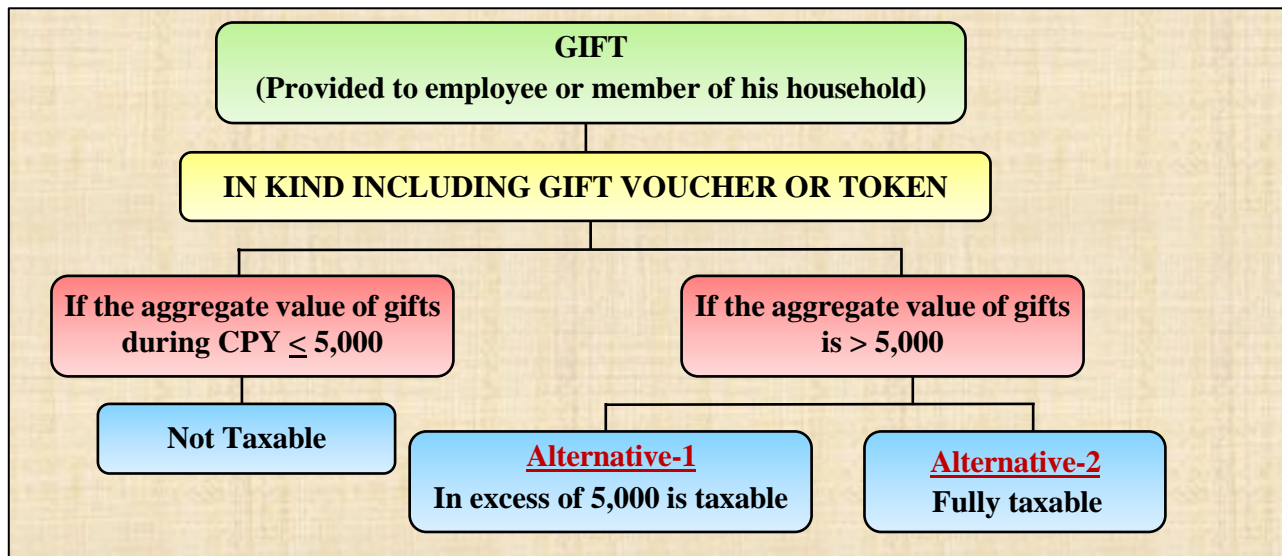
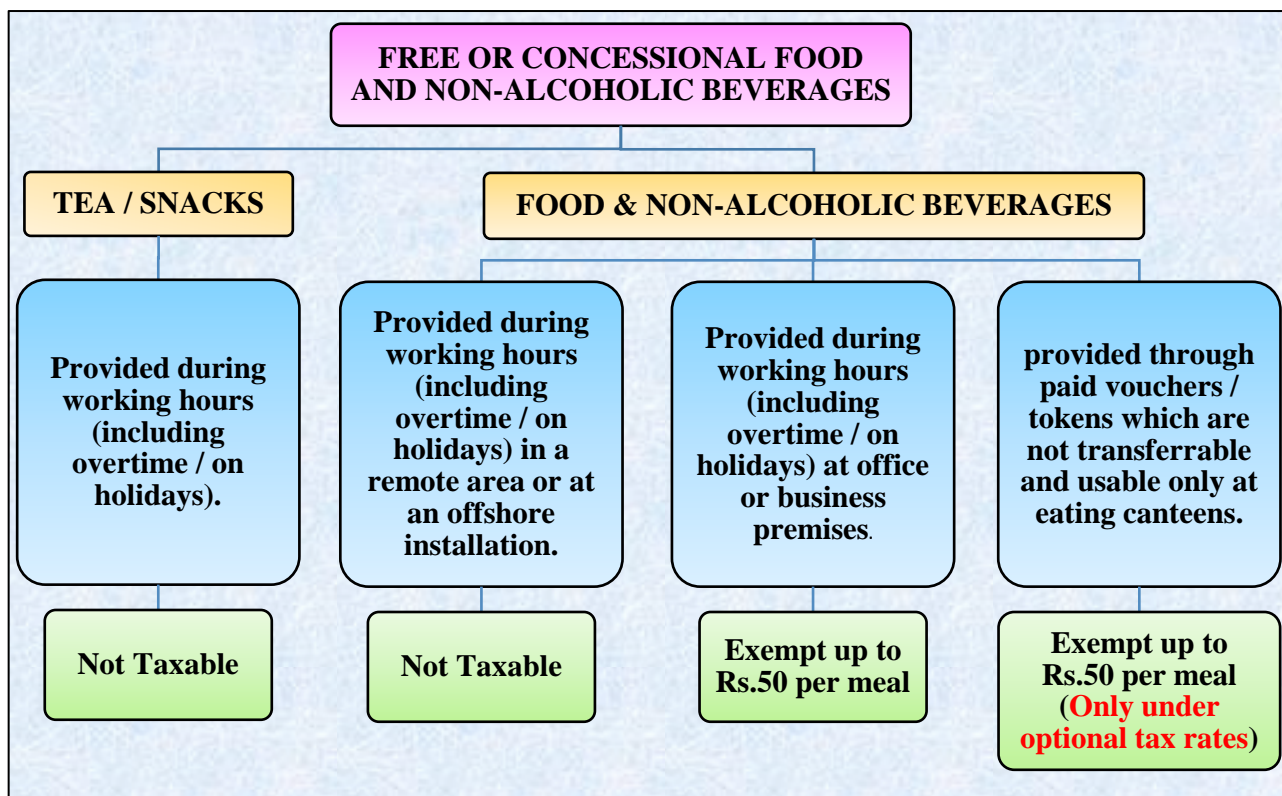


QUESTION:

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

- X is given a laptop by the employer for using it for office and private purpose (*ownership is not transferred*). Cost of the laptop to the employer is ₹ 96,000.
- On 15.10.2023, the company gives its music system to Y for domestic use. Ownership is not transferred. Cost of music system (in 2018) to the employer is ₹ 15,000.
- The employer sells the following assets to the employees on January 1, 2025:

| Name of employee → Asset sold → | Z Car | A Computer | B Fridge |
|---|--------------|---------------|--------------|
| Cost of the asset to employer | ₹ 6,96,000 | ₹ 1,17,000 | ₹ 40,000 |
| Date of purchase (put to use on same day) | May 15, 2022 | May 15, 2022 | May 15, 2022 |
| Sale price | ₹ 2,10,000 | ₹ 24,270 | ₹ 1,000 |

9) GIFT:10) FREE OR CONCESSIONAL FOOD AND NON-ALCOHOLIC BEVERAGES:11) SWEAT EQUITY SHARES / SPECIFIED SECURITIES

Taxable Value = FMV of shares on the **date of exercising the option** – amount recovered from employee.

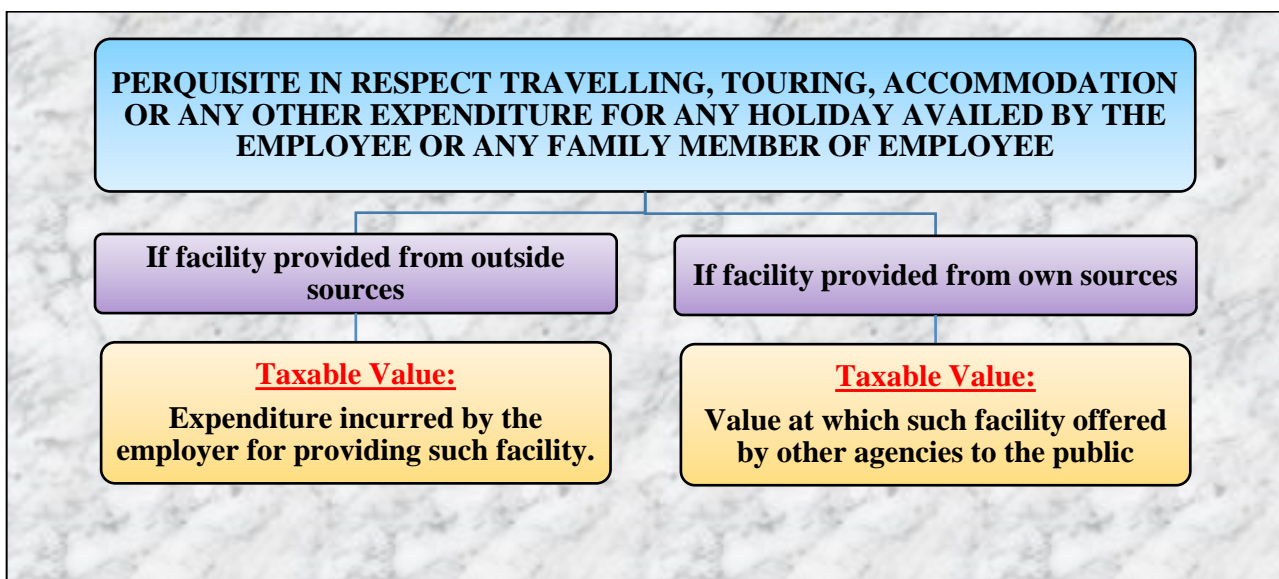
NOTES:

- 1) In case of subsequent sale of above Sweat equity shares/Specified securities, the assessee is required to calculate the capital gain by taking the above fair market value as cost of acquisition.

2) Fair market value for this purpose on the date of exercising of the option.:

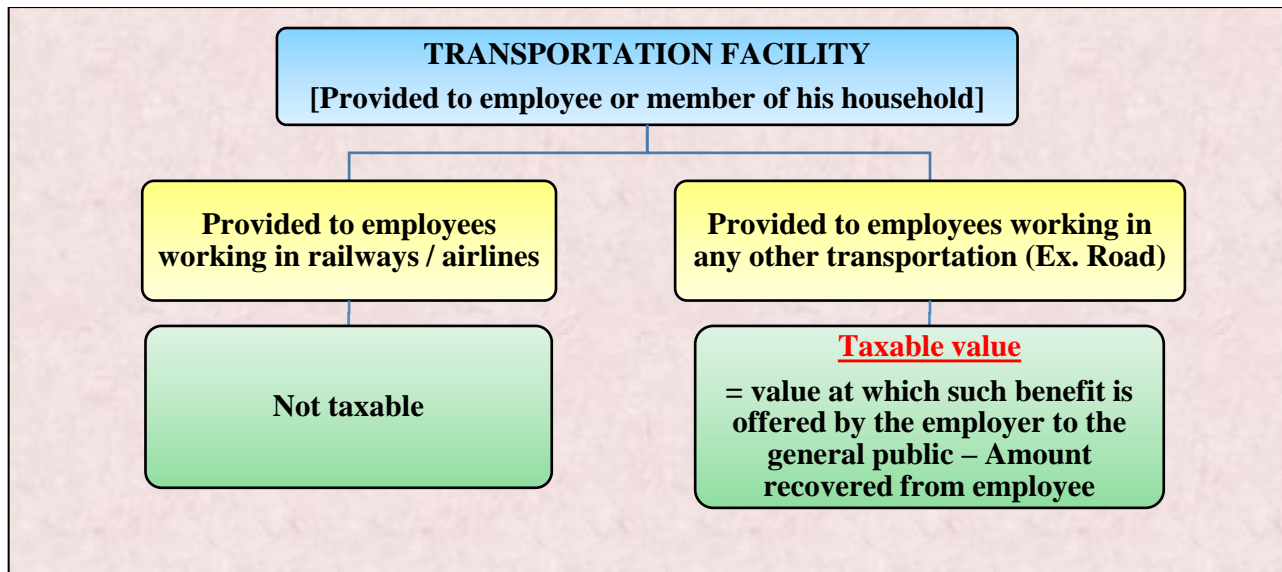
| CASE | FAIR MARKET VALUE (FMV) |
|---|--|
| a) Listed and traded in one recognised stock exchange | Average of the opening price and closing price on the date of exercising the option |
| b) Listed and traded in more than one recognised stock exchange | Average of opening price and closing price on the recognised stock exchange which records highest volume of trading on the date of exercising of the option. |
| c) Listed but not traded in one recognised stock exchange | The closing price of the share on any recognised stock exchange on a date closest to the date of exercising of the option and immediately preceding such date |
| d) Listed but not traded in more than one recognised stock exchange | The closing price of the share, which records the highest volume of trading in such share, if the closing price, as on the date closest to the date of exercising of the option and immediately preceding such date, is recorded on more than one recognised stock exchange. |
| e) Not listed on recognised stock exchange. | FMV shall be valued by a merchant banker on the specified date |

3) However, where the stock exchange quotes both “buy” and “sell” prices, opening price shall be the “sell” price of the first settlement, closing price shall be the “sell” price of the last settlement.

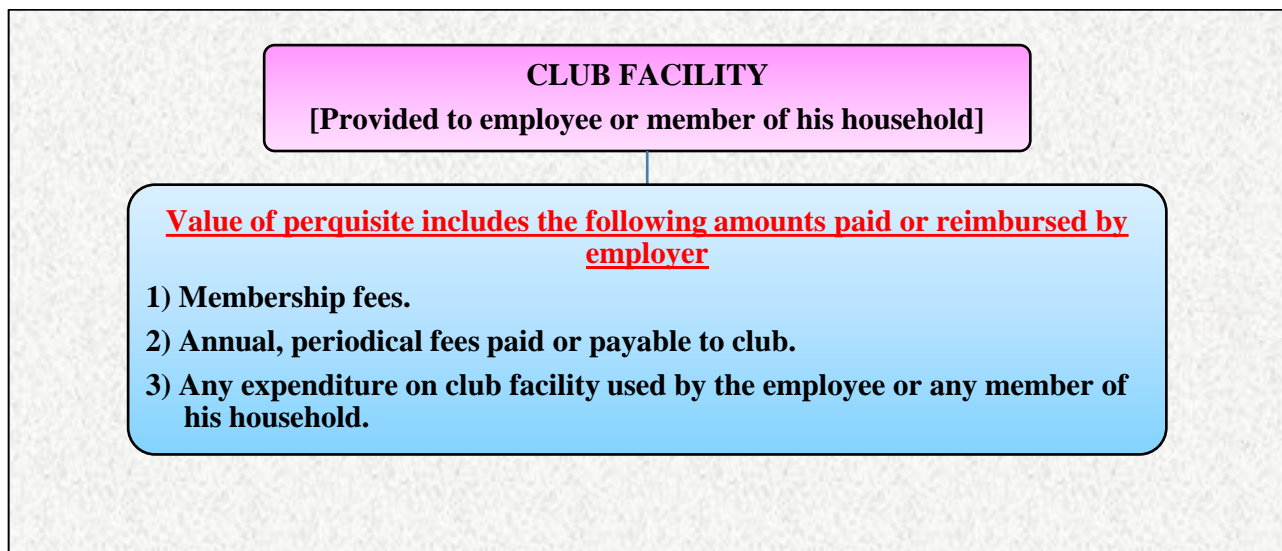
12) TRAVELLING, TOURING ETC. (OTHER THAN LTC):**NOTE:**

- 1) If any amount is recovered from employee, it shall be deducted from taxable value.
- 2) Where the employee is on official tour and the expenses incurred for any member of his household accompanying him. The amount of exp. Incurred for such accompanies person shall be taxable.
- 3) Where any official tour is extended as a vacation, then exp. Incurred for such extended period shall be taxable.

13) FREE OR CONCESSIONAL TICKETS:



14) CLUB FACILITY:



NOTES:

- 1) If any amount is recovered from employee, it shall be deducted from taxable value.
- 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, where benefit does not remain with a particular employee.
- 4) if club expenditure is incurred wholly and exclusively for business purposes, it would not be treated as a perquisite provided the following conditions are fulfilled:
 - a) Complete details in respect of such expenditure is maintained by the employer (and)
 - b) The employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for official duties.

15) CREDIT CARD FACILITY:

Value of credit card facility provided to employee or any member of his household is taxable as perquisite.

Value of perquisite includes

- a) Membership fees.
- b) Annual fee
- c) Any expenditure incurred on credit card facility used by the employee or any member of his household (*including any add-on card*).

If any amount recovered from employee shall be deducted from taxable value.

Expenditure on use of credit card for official purpose shall be deductible only on satisfaction of following conditions:

- a) Complete details in-respect of such expenditure is maintained by the employer. (and)
- b) The employer gives a certificate for such expenditure to the effect that the same was incurred wholly and exclusively for official duties.

16) TELEPHONE FACILITY:

if an employer pays or reimburses telephone bills or mobile phone charges of employee, there will be no taxable perquisite.

However, if employer gives telephone allowance-it is fully taxable.

ANY OTHER BENEFIT OR AMENITY:

The value of any other benefit or amenity, service, right or privilege provided by the employer shall be [Cost to employer – amount recovered from employee]

EXEMPTION IN RESPECT OF LEAVE TRAVEL CONCESSION [SECTION 10(5)]:

Section 10(5) exempts LTC received by employees from their employers in respect of leave travel of employee or his family members for proceeding to any place in India,

- a) either on leave or
- b) after retirement from service or
- c) after termination of his service.

QUANTUM OF EXEMPTION [Limits]:

The exemption for each trip shall be computed on the following basis but shall be restricted to actual exp, incurred for the purpose of such travel.

| Journey performed by | Exemption |
|--|---|
| a) Air- flight | Economic class fare for the shortest route |
| b) Any other mode: | |
| i) Rail service is available | 1st class A.C. fare for the shortest route |
| ii) Rail service not available: <ul style="list-style-type: none">Recognized public transport system existsNot exists | 1st class or deluxe class of such transport for the shortest route 1st class A.C. fare of Railway as if the journey has been performed by Rail for the shortest route. |

- The above benefit is available for citizens as well as non-citizens.
- LTC exemption is available only if assessee is paying taxes under optional tax rates
- Under Rule 2B, exemption will be available in respect of 2 journeys performed in a block of 4 calendar years commencing from the calendar year 1986. Current block is 2022-2025.
- Where such travel concession is not availed by the individual during any block of 4 calendar years, one such unavailed LTC will be carried forward to the immediately succeeding block of 4 calendar years and will be eligible for exemption (*In such case 3 trips are exempted in the next block*). Therefore, only one trip can be carried forward.
- Family means spouse, children, parents, dependent brothers and sisters.
- The exemption shall not be available to more than 2 surviving children of an individual after 01-10-98. This restriction shall not apply in respect of children born before 01-10-98 & also in case of multiple births after 1 child.

QUESTION:

Mr. D went on a holiday on 25.12.2024 to Delhi with his wife and three children (*one son – age 5 years; twin daughters – age 3 years*). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹ 60,000 (*₹ 45,000 for adults and ₹ 15,000 for the three minor children*). Compute the amount of LTC exempt if Mr. D exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION:

Since the son's age is more than the twin daughters, Mr. D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt in the hands of Mr. D, since he is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A).

QUESTION:

In the above question, will there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss.

SOLUTION:

Since the twins' age is more than the son, Mr. D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children. Taxable LTC = $3 \times 15,000 = \text{Rs. } 5,000$. LTC exempt would be only Rs. 55,000 (i.e. 60,000 – 5,000).

PROVIDENT FUND [WELFARE CONTRIBUTIONS]

Types of Provident Funds:

| | |
|---|--|
| Recognized Provident Fund (RPF) | It is a fund Recognized by the Commissioner of Income Tax (CIT) for the purpose of income tax |
| Unrecognized Provident Fund (URPF) | A fund not recognised by the Commissioner of Income-tax is Unrecognised Provident Fund. |
| Statutory Provident Fund (SPF) | SPF is governed by Provident Funds Act, 1925. It applies to employees of government, railways, semi-government institutions, local bodies, universities and all recognised educational institutions. |

| | |
|------------------------------------|--|
| Public Provident Fund (PPF) | Public provident fund is operated under the Public Provident Fund Act, 1968. Both salaried and self-employees can contribute to this fund. An individual may contribute to the fund on his own behalf or on behalf of a minor of whom he is the guardian. |
|------------------------------------|--|

Tax treatment during the employment period

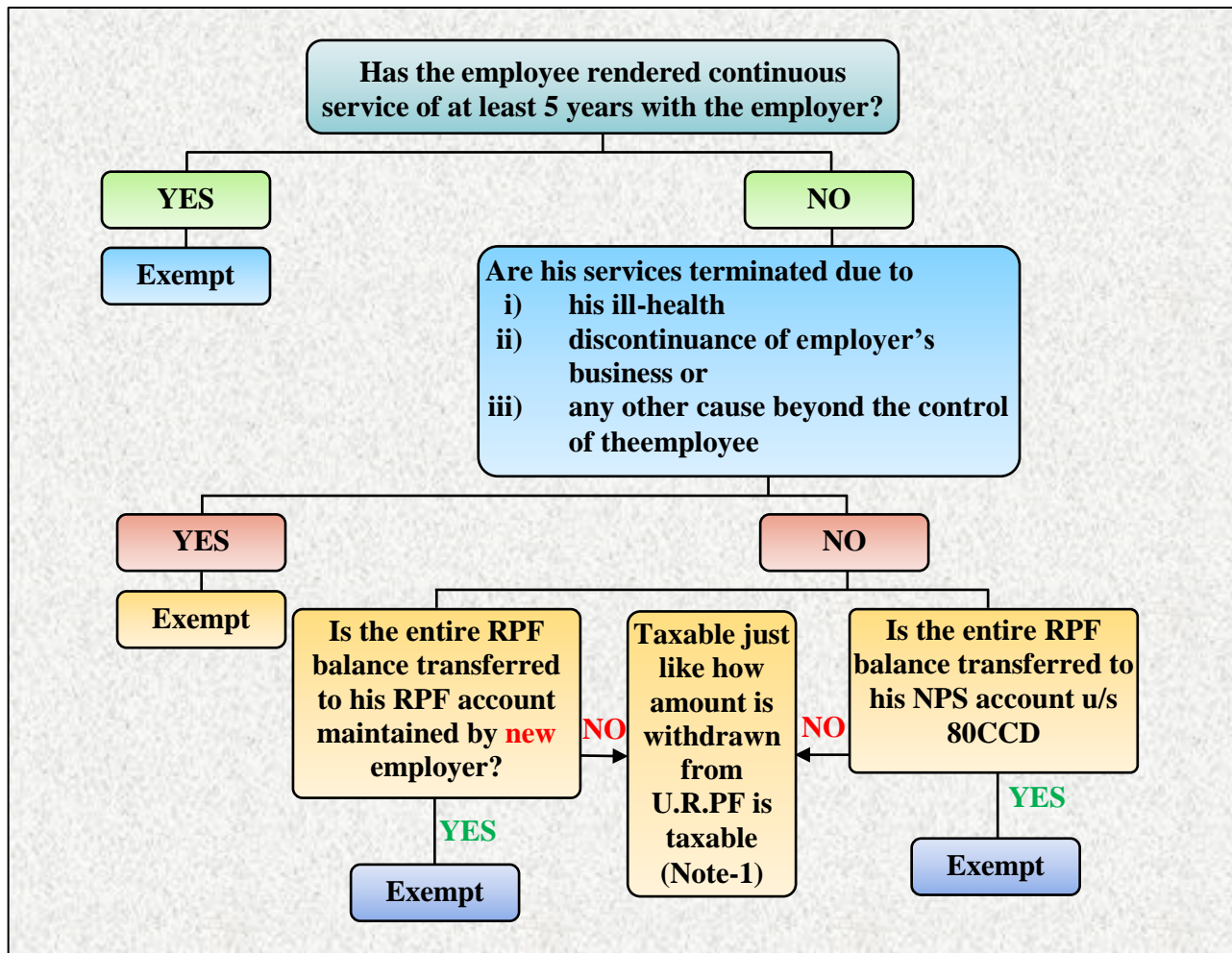
| Particulars | RPF | URPF | SPF | PPF |
|--|--|---|--|--|
| a) Employer's Contribution | Up to 12% p.a - Exempt In excess of 12% - Taxable | Not taxable at the time of contribution | Fully Exempt | Not applicable (as there is no employer's contribution) |
| b) Employee's Contribution | Eligible for deduction u/s 80C (only under optional tax rates) | Not eligible for deduction | Eligible for deduction u/s 80C (only under optional tax rates) | Eligible for deduction u/s 80C (only under optional tax rates) |
| c) Interest Credited | Up to 9.5% p.a - Exempt In excess of 9.5% p.a - Taxable | Not taxable at the time of credit of interest | Fully exempt | Fully exempt |
| d) Amount received on retirement etc. | Exempt u/s 10(12) subject to certain conditions (Note-2) | See Note-1 | Fully exempt u/s 10(11) | Fully exempt u/s 10(11) |
| SALARY = BASIC + DA (F.P.R.B) + COMMISSION (AS A % OF TURNOVER) | | | | |

NOTES:**1) Taxability of amount received from URPF:**

- Employee's contribution is not taxable.
- Interest on employee's contribution is taxable under 'Income from Other Sources'.
- Employer's contribution and Interest on employer contribution is taxed under Income from Salaries.

STUDENT NOTES:

2) Exemption of Accumulated balance of RPF, payable to an employee



PART-1: Allowances fully taxable under both regimes:

- Entertainment Allowance to other than govt employees
- Dearness Allowance
- Overtime Allowance
- Fixed Medical Allowance
- City Compensatory Allowance (to meet increased cost of living in cities)
- Interim Allowance
- Servant Allowance
- Project Allowance
- Tiffin/Lunch/Dinner Allowance
- Warden Allowance
- Transport allowance to employee other than physically handicapped employee
- Any other cash allowance

PART-2: Allowances exempt up to amount spent for official purposes [Sec 10(14)(i)]

- Conveyance allowance.
 - Daily allowance
 - Travelling allowance
 - Uniform allowance
 - Helper allowances
 - Research allowance
- } Exemption available under both tax regimes
- } Exemption available only under optional tax regime

PART-3: Allowances which are fully exempt

- Allowance to Supreme Court/ High Court Judges
- Salary and Allowance paid by the UNO to its employees
Apart from salary, any pension received from UNO is also exempt
- Sumptuary allowance[#] to High court/ Supreme court judges
- Allowances payable outside India [Section 10(7)]* - allowed under both tax rates

Allowed
only under
optional
tax rates

NOTE:

* Allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for services rendered outside India are exempt from tax.

Sumptuary allowance is an expenditure allowance that helps government officials to pay for official entertainment and hospitality.

PART-4: Allowances exempt up to amount specified in the act [Sec 10(14)(ii)]

| Sl. No. | NAME OF ALLOWANCE | EXTENT TO WHICH ALLOWANCE IS EXEMPT |
|---------|---|--|
| 1) | Special Compensatory (Hilly Areas) Allowance or High Altitude Allowance or Uncongenial Climate Allowance or Snow Bound Area Allowance or Avalanche Allowance | ₹800 or ₹300 per month depending upon the specified locations ₹ 7,000 per month in Siachen area of Jammu and Kashmir |
| 2) | border area allowance or remote locality allowance or difficult area allowance or disturbed area allowance | 1,300 or 1,100 or 1,050 or 750 or 300 or 200 per month depending upon the specified locations |
| 3) | Special Compensatory (Tribal Areas/Schedule Areas/Agency Areas) Allowance [Specified States] | 200 per month |
| 4) | Any allowance granted to an employee working in any transport system to meet his personal expenditure during his duty performed in the course of running such transport from one place to another, provided that such employee is not in receipt of daily allowance | 70% of such allowance (or) 10,000 p.m, whichever is lower |
| 5) | Children Education Allowance | 100 per month per child up to a maximum of two children |
| 6) | Any allowance granted to an employee to meet the hostel expenditure on his child (Hostel allowance) | 300 per month per child up to a maximum of two children |

| | | |
|-----|--|---|
| 7) | Compensatory Field Area Allowance [Specified areas in Specified States] | 2,600 per month |
| 8) | Compensatory Modified Field Area Allowance [Specified areas in Specified States] | 1,000 per month |
| 9) | Any special allowance in the nature of <u>counter insurgency allowance</u> granted to the members of the armed forces operating in areas away from their permanent locations. | 3,900 per month |
| 10) | <u>Underground Allowance</u> granted to an employee who is working in uncongenial, unnatural climate in underground mines. | 800 per month |
| 11) | Any special allowance in the nature of <u>high-Altitude allowance</u> granted to the member of the armed forces operating in high altitude areas For altitude of 9,000 to 15,000 feet For above 15,000 feet | 1,060 per month 1,600 per month |
| 12) | Any special allowance in the nature of <u>special compensatory highly active field area allowance</u> granted to the member of the armed forces | 4,200 per month |
| 13) | Any special allowance in the nature of <u>Island (duty) allowance</u> granted to the member of the armed forces in <u>Andaman & Nicobar and Lakshadweep Group of Islands</u> | 3,250 per month |
| 14) | Transport allowance granted to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty | in case of blind/ deaf and dumb/ orthopedically handicapped employees' exemption up to ₹3,200 p.m. (available under both tax rates) |

- Any assessee claiming exemption in respect of allowances mentioned at serial numbers 7 & 8 and 9 shall not be entitled to exemption in respect of the allowance and disturbed area allowance referred at serial number 2, respectively.
- Exemption for allowances from S.NO 1 to 13 is available only under optional tax rates. Exemption for S. No 14 is available under both tax regimes.

House rent allowance [Section 10(13A)]: HRA is a special allowance specifically granted to an employee by his employer towards payment of rent for residence of the employee (available only under optional tax rates)

AMOUNT OF EXEMPTION:

| Metro Cities (i.e., Delhi, Kolkata, Mumbai, Chennai) | Other Cities |
|---|---|
| ➤ HRA actually received for therelevant period | ➤ HRA actually received for therelevant period |
| ➤ Rent paid (-) 10% of salary for the relevant period | ➤ Rent paid (-) 10% of salary for the relevant period |
| ➤ 50% of salary for the relevant period | ➤ 40% of salary for the relevantperiod |

NOTE:

- Exemption is not available to an assessee who lives in his own house, or in a house for which he has not incurred the expenditure of rent.
- Salary = Basic + D.A (F.P.R.B) + Commission (as a % of turnover)
- Relevant period means the period during which the said accommodation was occupied by the assessee during the previous year.

QUESTION:

Mr. Raj Kumar has the following receipts from his employer:

| Particulars | Amount |
|---|-------------|
| Basic pay | 40,000 p.m. |
| Dearness allowance (D.A.) | 6,000 p.m. |
| Commission | 50,000 p.a. |
| Motor car for personal use (expenses met by the employer) | 1,500 p.m. |
| House rent allowance | 15,000 p.m. |

Find out the amount of HRA exempt in the hands of Mr. Raj Kumar assuming that he paid a rent of 16,000 p.m. for his accommodation at Kanpur. DA forms part of salary for retirement benefits. Mr. Raj Kumar exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION:

| Particulars | Amount |
|--|-------------------|
| HRA received | 1,80,000 |
| Less: Exempt under section 10(13A) [Note] | (1,36,800) |
| Taxable HRA | 43,200 |
| Note: Exemption shall be least of the following three limits: | |
| a) The actual amount received ($15,000 \times 12$) | 1,80,000 |
| b) excess of the actual rent paid by the assessee over 10% of his salary = Rent Paid (-) 10% of salary for the relevant period = $(16,000 \times 12) - 10\% \text{ of } [(40,000 + 6,000) \times 12]$ = 1,92,000 - 55,200 | 1,36,800 |
| c) 40% salary as his accommodation is situated at Kanpur = 40% of $[(40,000 + 6,000) \times 12]$ | 2,20,800 |

DEDUCTIONS u/s 16:1) **Sec 16(ia)** – Standard deduction

- Gross Salary (or) **75,000**, whichever is lower (under **default** tax rates)
- Gross Salary (or) **50,000**, whichever is lower (under **optional** tax rates)

2) **Sec 16(ii)** – Entertainment allowance (only for govt employees) (allowed **only under optional** tax rates)

- First included in gross salary as entertainment allowance

4. INCOME FROM SALARIES

- Then, eligible for claiming deduction u/s 16(ii)
- **Amount of deduction:**
Statutory limit: 5000 (or)
1/5th of Basic salary (or)
Actual entertainment allowance



3) **Section 16(iii):** Profession tax (**allowed only** under **optional** tax rates)

Tax treatment for Profession tax paid by employer:

- First include in gross salary under the heading perquisite
- Then, eligible for deduction in the hands of all employees

Tax treatment for Profession tax paid by employee:

- Directly allowed as deduction in the hands of all employees

PROFITS IN LIEU OF SALARY:

- 1) The amount of compensation due to or received by an assessee from his employer or former employer in connection with:
 - a) Termination of employment or
 - b) Modification of the terms & conditions of employment
- 2) Any payment due to or received by an assessee from his employer or former employer from a provident or other fund to the extent to which it does not consist of employee's contributions or interest on such contributions.
- 3) Any sum received under a key man insurance policy including bonus on such policy.
- 4) Any amount, whether in lump sum or otherwise, due to the assessee or received by him, from any person-
 - a) Before joining employment with that person, or
 - b) After cessation of his employment with that person

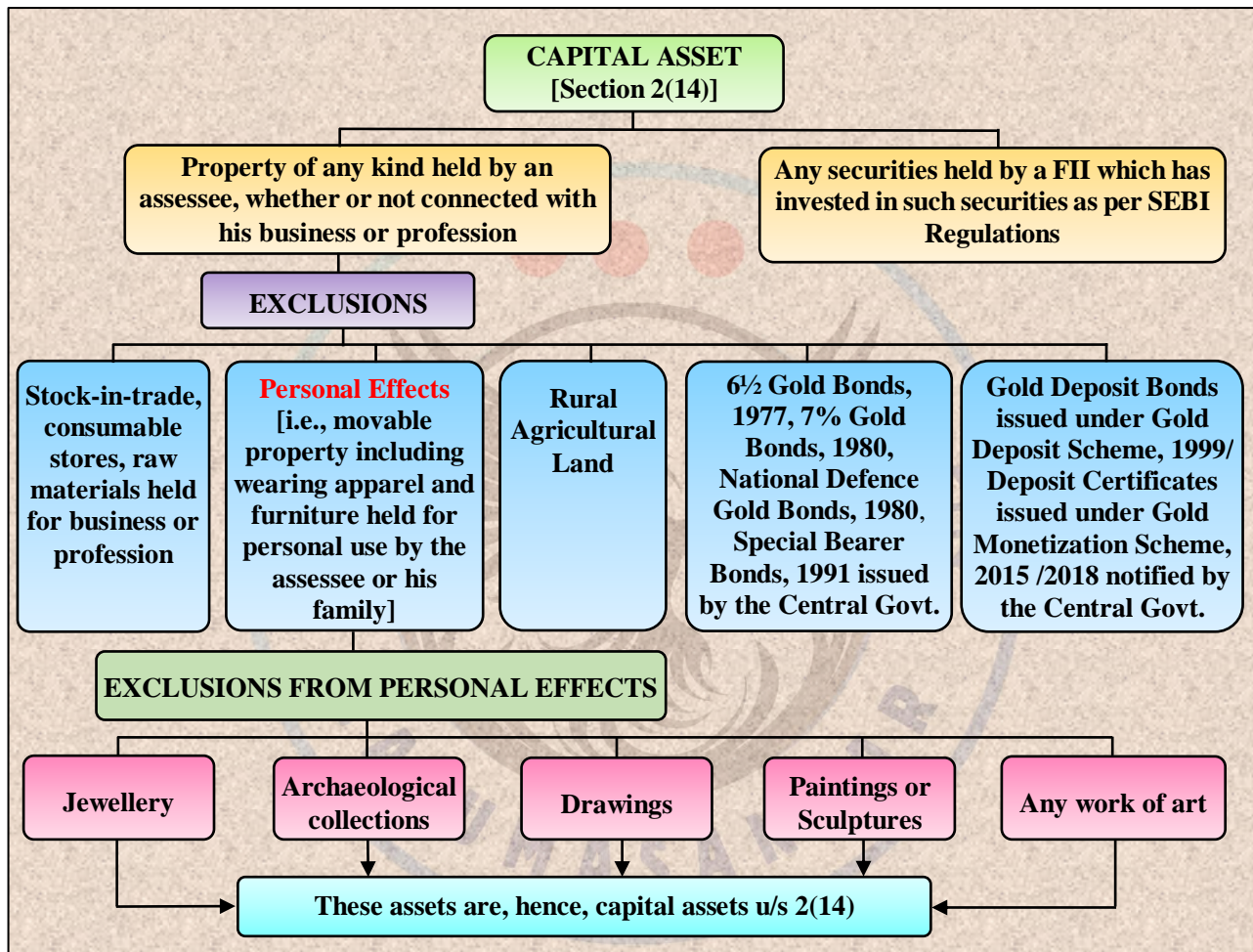
| Case | Government Employee Definition |
|-------------------------|--|
| Rent Free accommodation | CG/SG Employee |
| Leave Encashment | |
| Entertainment allowance | |
| Gratuity | CG/SG/local authority employees, members of civil service and defence service. |
| Commuted Pension | CG/SG/local authority/ statutory corporation employees, members of civil service and defence service. |

| Case | SALARY Definition |
|-------------------------|--|
| Rent Free Accommodation | Salary includes all benefits taxable except <ul style="list-style-type: none">• D.A (Not F.P.R.B)• Employer's contribution to PF and interest there on• Exempted allowances• Value of perquisites (Sec 17(2))• Retirement benefits |

| | |
|--|--|
| <ul style="list-style-type: none">• Non-govt ee covered under POGA, 1972• Retrenchment Compensation | Basic + Any D.A [D.A(F.P.R.B) + D.A (Not F.P.R.B)] |
| <ul style="list-style-type: none">• Non- govt ee not covered under POGA, 1972• Leave Encashment• H.R.A Exemption• Recognised Provident Fund• V.R.S Compensation | Basic + D.A (F.P.R.B) + Commission (as a % of turnover) |

5. CAPITAL GAINS**SECTIONS COVERED:** Sec 45 to 54**CHARGING SECTION:** Sec 45**METHOD OF ACCOUNTING:** Accrual basis except Sec 45(1A), 45(2), 45(5)**APPLICABLE TAX RATES:** Both Normal and Special tax rates

- 1) **Sec 45:** any profits or gains arising from the **transfer** of a **capital asset** effected in the **previous year** will be chargeable under the head “**Capital Gains**”



- Rural Agricultural land means land situated in a non-specified area in India.

SPECIFIED AREA:

| Population in a Municipality or Cantonment Board | What is Specified area? |
|--|--|
| • $\leq 10,000$ | • Not a Specified area |
| • $>10,000$ but up to 1 lakh | • Municipality area + 2 kms from local limits of municipality |
| • > 1 lakh but up to 10 lakhs | • Municipality area + 6 kms from local limits of municipality |
| • > 10 lakhs | • Municipality area + 8 kms from local limits of municipality |

TRANSFER [SEC 2(47)]:

Includes:

- | | |
|---|---|
| a) Sale | b) Exchange |
| c) Relinquishment of rights in a capital asset | d) Extinguishment of capital asset |
| e) Compulsory acquisition of a capital asset by government | f) Conversion of C.A into SIT |
| g) Maturity or redemption of zero-coupon bonds | h) Transfer by way of part performance of a contract |

Excludes:

- a) Any distribution of capital assets on the total or partial partition of a HUF
- b) Any transfer of a capital asset by an **individual or HUF** under a gift or will or an irrevocable trust (except gift of ESOP shares, which are chargeable to tax)
- c)
 - Transfer of capital asset by holding company to its wholly owned Indian subsidiary company
 - Transfer of capital asset by a subsidiary company to its 100% holding company, being an Indian company
- d)
 - Transfer of capital asset by amalgamating company to amalgamated Indian company, in a scheme of amalgamation
 - Exchange of amalgamating company shares for amalgamated Indian company shares is not a transfer
- e)
 - Transfer of capital asset by the demerged company to the resulting Indian company, in a scheme of demerger
 - Any transfer or issue of shares by the resulting Indian company, in a scheme of demerger to the shareholders of the demerged company
- f) Transfer of Government Security/ rupee denominated bonds outside India by a non-resident to another non-resident
- g) Redemption of sovereign gold bonds by an Individual
- h) Conversion of gold into Electronic Gold Receipt or vice a versa
- i) Transfer of following specified capital asset to the Government or to any university or institution notified by govt.

| | |
|-----------------------|--|
| 1. Work of art | 2. Archaeological, scientific or art collection |
| 3. Book | 6. Painting |
| 4. Manuscript | 7. Photograph or print |
| 5. Drawing | |
- j) conversion of bonds or debentures, debenture stock or deposit certificates in any form, of a company into shares or debentures of that company
- k) Conversion of preference shares into equity shares
- l) Transfer of capital asset under Reverse Mortgage

NATURE OF CAPITAL ASSET (STCA OR LTCA):

| Capital Asset | STCG, if held for | LTCG, if held for |
|--|----------------------|-------------------|
| In case transfer takes place before 23.7.2024 | | |
| <ul style="list-style-type: none"> Listed Shares Listed Securities (<i>other than unit</i>) Unit of equity-oriented fund unit of UTI Zero Coupon bond | POH \leq 12 months | POH > 12 months |
| <ul style="list-style-type: none"> Unlisted shares (ES/PS) Land or building or both | POH \leq 24 months | POH > 24 months |
| <ul style="list-style-type: none"> Unlisted securities other than shares Other capital assets | POH \leq 36 months | POH > 36 months |
| In case transfer takes place on or after 23.7.2024 | | |
| <ul style="list-style-type: none"> Listed shares Listed Securities (<i>including units</i>) Unit of equity-oriented fund/unit of UTI Zero Coupon bond | POH \leq 12 months | POH > 12 months |
| <ul style="list-style-type: none"> Other capital assets | POH \leq 24 months | POH > 24 months |

NOTE – As per section 50AA, capital gains arising from transfer of the following assets would always be capital gains arising from transfer of short- term capital assets irrespective of the period of holding of such assets -

- units of a specified mutual fund acquired on or after 1.4.2023,
- market linked debentures,
- unlisted bond and unlisted debenture which is transferred or redeemed or matures on or after 23.7.2024

STUDENT NOTES:

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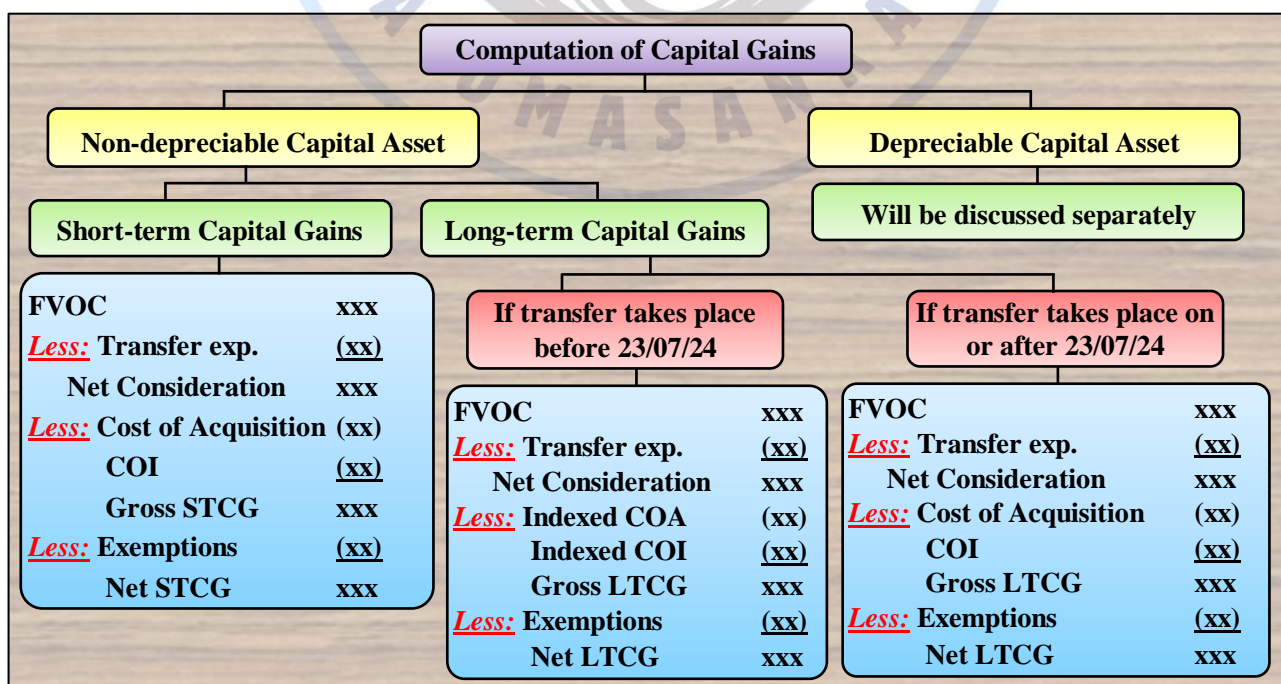
PERIOD OF HOLDING (POH):

Generally, POH will be calculated from date of purchase up to the date prior to the date of transfer.

SPECIAL CASES:

| Case | POH OF CAPITAL ASSET TRANSFERED |
|---|--|
| 1) Conversion of preference shares to Equity Shares | = POH of current capital asset + POH of previous capital asset |
| 2) conversion of bonds or debentures, debenture stock or deposit certificates into shares or debentures | |
| 3) Conversion of Gold into E.G.R | |
| 4) Conversion of E.G.R into Gold | |
| 5) Exchange of amalgamating company shares for amalgamated Indian company shares | |
| 6) Transfer or issue of shares by the resulting Indian company, in a scheme of demerger, to demerger company shareholders | |
| 7) Shares purchased from Primary Market | Is to be calculated from date of allotment |
| 8) Bonus Shares | |
| 9) Sweat Equity Shares / Specified Securities | |
| 10) Purchase of right shares | |
| 11) Rights renouncement | Shall be calculated from the date of offer of such shares by the company to the date of renouncement |
| 12) Property acquired in any mode given u/s 49(1) | = POH of current owner + POH of previous owner |
| 13) Conversion of SIT into C.A (capital asset) | POH will be calculated from date of conversion |
| 14) Where shares are held in a company in liquidation | The period subsequent to the date of liquidation of company shall be excluded |

FORMAT FOR COMPUTATION OF CAPITAL GAINS:



Full Value of Consideration (FVOC):

- Anything received in return for transfer of capital asset is consideration
- Consideration can be monetary or non-monetary
- If consideration is non-monetary, FMV of non-monetary consideration is to be taken as FVOC.
- If non-monetary consideration received is not ascertainable, then FMV of capital asset transferred is to be taken as FVOC (Sec 50).

Transfer Expenses:

- Any expense that is spent wholly and exclusively for the purpose of transfer
Eg: Brokerage, commission, stamp duty/ registration fees paid by seller
- It is allowed as a deduction from FVOC
- STT paid is not allowed as a transfer expense

Cost of Acquisition:

Generally, $\text{COA} = \text{Purchase cost} + \text{Incidental expenses}$

Cost of acquisition of the asset would not include the deductions claimed on interest u/s 24(b) or under the provisions of Chapter VI-A deductions (80EE, 80EEA) (i.e., Interest on housing loan)

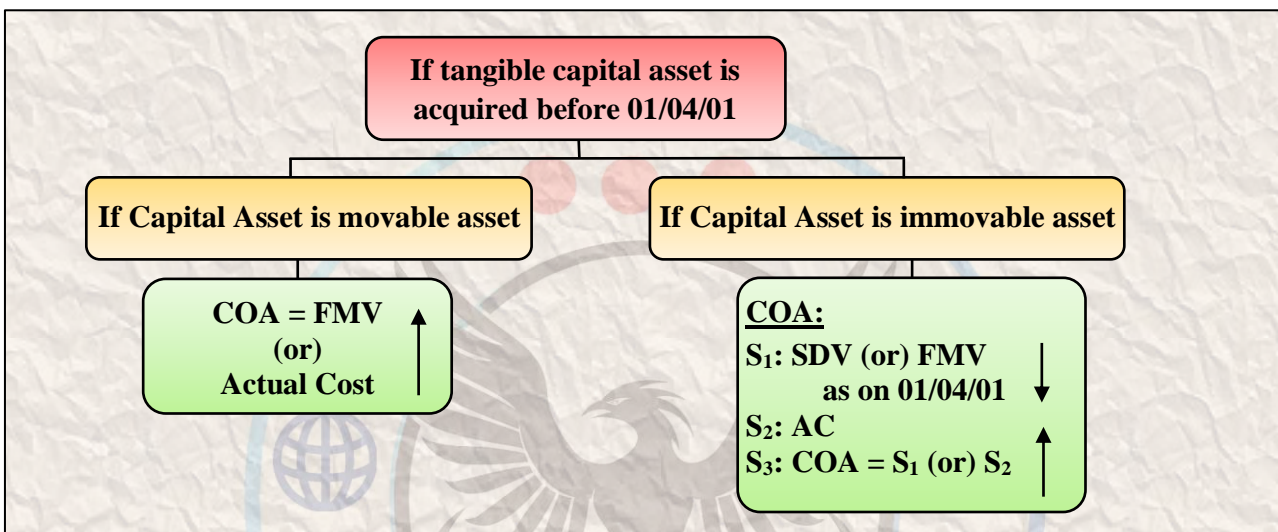
Special Cases:

| Case | Cost of acquisition |
|--|--|
| <ul style="list-style-type: none"> • Bonus shares <ul style="list-style-type: none"> ➤ If allotted before 01-04-2001 ➤ If allotted after 01-04-2001 | <ul style="list-style-type: none"> • COA = FMV as on 01-04-2001 • COA = Nil |
| <ul style="list-style-type: none"> • Intangible assets <ul style="list-style-type: none"> ➤ Self-generated ➤ Purchased ➤ If C.A is goodwill and is purchased by assessee in any P.Y up to P.Y 19-20 | <ul style="list-style-type: none"> • COA = Nil • COA = Purchase cost • COA = Purchase price – Depreciation (till P.Y 19-20) |
| <ul style="list-style-type: none"> • Sweat Equity Shares (or) Specified Securities | <ul style="list-style-type: none"> • COA = FMV of shares considered in calculation of perquisite under Salaries |
| <ul style="list-style-type: none"> • Right Renouncement <ul style="list-style-type: none"> ➤ Transferor ➤ Transferee | <ul style="list-style-type: none"> • COA = Nil • COA = Amount paid to company + amount paid to renouncer |
| <ul style="list-style-type: none"> • Conversion of Preference shares into equity shares | <ul style="list-style-type: none"> • COA = COA of previous capital asset |
| <ul style="list-style-type: none"> • conversion of bonds or debentures, debenture stock or deposit certificates into shares or debentures | |
| <ul style="list-style-type: none"> • Conversion of Gold into E.G.R | |
| <ul style="list-style-type: none"> • Conversion of E.G.R into Gold | |
| <ul style="list-style-type: none"> • Exchange of amalgamating company shares for amalgamated Indian company shares | |
| <ul style="list-style-type: none"> • Conversion of SIT into C.A | <ul style="list-style-type: none"> • COA = FMV on date of conversion |

5. Capital Gains

| | |
|---|---|
| <ul style="list-style-type: none"> Assets acquired by any modes specified u/s 49 (1) Where cost of the property in the hands of previous owner cannot be ascertained | <ul style="list-style-type: none"> COA = Cost to the previous owner The FMV on the date on which the capital asset become the property of the previous owner would be considered as cost of acquisition. |
| <ul style="list-style-type: none"> Property acquired by way of gift <ul style="list-style-type: none"> ➤ If gift is not taxable ➤ If gift is taxable | <ul style="list-style-type: none"> COA = Cost to previous owner COA = FMV (Movable Property) SDV (Immovable Property) |

FMV as on 01-04-2001:



Cost of Improvement (COI):

- It means any capital expense incurred by an assessee in making any additions/ improvement to the capital asset.
- COI is available for both tangible and intangible assets
- COI incurred on or after 01-04-01 is allowed as deduction
- COI can be incurred either by assessee or previous owner

NOTES:

- COI incurred before 01-04-2001 is to be ignored
- COI is taken as nil, if intangible asset is-
 - Goodwill
 - Right to manufacture any article
 - Right to carry on any business
- Cost of improvement of the asset would not include the deductions claimed on interest u/s 24(b) or under the provisions of Chapter VI-A deductions (80EE, 80EEA) (i.e., Interest on housing loan)

Indexation:

If LTCA is transferred before 23-7-2024, then indexation benefit is available for such capital asset with regard to both COA and COI

$$\text{Indexed COA} = \text{COA} \times \frac{\text{CII (in year of Transfer)}}{\text{CII (in year of Purchase)}}$$

If year of purchase is before 2001-02, then consider CII of 2001-02 i.e, 100 in the denominator

$$\text{Indexed COI} = \text{COI} \times \frac{\text{CII (in year of Transfer)}}{\text{CII (in year of Improvement)}}$$

| Financial Year | Cost Inflation Index |
|----------------|----------------------|
| 2001-02 | 100 |
| 2002-03 | 105 |
| 2003-04 | 109 |
| 2004-05 | 113 |
| 2005-06 | 117 |
| 2006-07 | 122 |
| 2007-08 | 129 |
| 2008-09 | 137 |
| 2009-10 | 148 |
| 2010-11 | 167 |
| 2011-12 | 184 |
| 2012-13 | 200 |
| 2013-14 | 220 |
| 2014-15 | 240 |
| 2015-16 | 254 |
| 2016-17 | 264 |
| 2017-18 | 272 |
| 2018-19 | 280 |
| 2019-20 | 289 |
| 2020-21 | 301 |
| 2021-22 | 317 |
| 2022-23 | 331 |
| 2023-24 | 348 |
| 2024-25 | 363 |

Note: Indexation facility is available to previous owner holding period (*Manjula J. Shah case*) (*Alternative treatment*)

| Long-term capital assets which are transferred before 23.7.2024 | Indexation benefit |
|---|---|
| Bonds or debentures | No |
| Capital indexed bonds issued by the Government | Yes |
| Sovereign Gold Bond issued by the RBI under the Sovereign Gold Bond Scheme, 2015 | Yes |
| Depreciable assets | N.A. since it will be short term capital gain |
| Unit of a specified mutual fund acquired on or after 1.4.2023 | |
| Marked linked debentures | |
| Equity share in a company on which STT is paid both at the time of acquisition and transfer | No |
| Unit of equity oriented fund or unit of business trust on which STT is paid at the time of transfer | No |
| Virtual digital asset | No |
| Other long-term capital assets | Yes |

Consequent to the amendment made by the Finance (No. 2) Act, 2024 in section 48, Indexation benefit is not available on **long-term capital gains arising on transfer of any capital assets taking place on or after 23.7.2024**

Exception: If capital asset being land or building or both purchased before 23-7-2024 is transferred by Resident Individual or Resident HUF on or after 23-7-2024, indexation benefit is available for tax calculation purpose. (*Will be discussed in detail subsequently*).

EXCEPTIONS TO METHOD OF ACCOUNTING:

1) SEC. 45(1A): DAMAGE OR DESTRUCTION OF ANY CAPITAL ASSET

| | |
|--------------------------|--|
| 1) Taxable event | 1) Damage or Destruction of any capital Asset as a result of, and <i>a)</i> Typhoon, Hurricane, Cyclone, Earthquake etc. <i>b)</i> Riot, Civil disturbances. <i>c)</i> Accidental Fire or Explosion. <i>d)</i> Action by an enemy (<i>or</i>) Action taken in combating an enemy (with/ without declaration of war). 2) Received compensation from insurance company. |
| 2) Year of Transfer | P.Y. in which the asset was damaged/ got destroyed |
| 3) Year of Chargeability | P.Y. in which the compensation received (<i>i.e. exception to method of accounting</i>) |
| 4) Consideration | Value of money received (<i>or</i>) FMV of the asset received on the date of the receipt |
| 5) Period of holding | From the date of Acquisition up to the date prior to the date of destruction |
| 6) Indexation | Available up to the year of destruction |

Note: If the compensation was received in respect of destroyed plant & machinery, the same will be taxed in the hands of the recipient U/S.45(1A). if the compensation has been received on account of destroyed stock, then the same shall be taxed U/S.28 (PGBP)

2) **SEC.45(2): CONVERSION OF CAPITAL ASSET INTO STOCK IN TRADE**

| | |
|------------------------------|---|
| Taxable event | Conversion of capital asset into stock in trade |
| Year of Transfer | Year of Conversion |
| Year of Chargeability | Previous year in which Stock in trade is sold. (<i>Exception to method of accounting</i>) |
| Consideration | FMV on the Date of Conversion |
| Period of Holding | From the Date of Acquisition up to the date prior to the Date of Conversion |
| Indexation Facility | Available up to the year of Conversion |

NOTE:

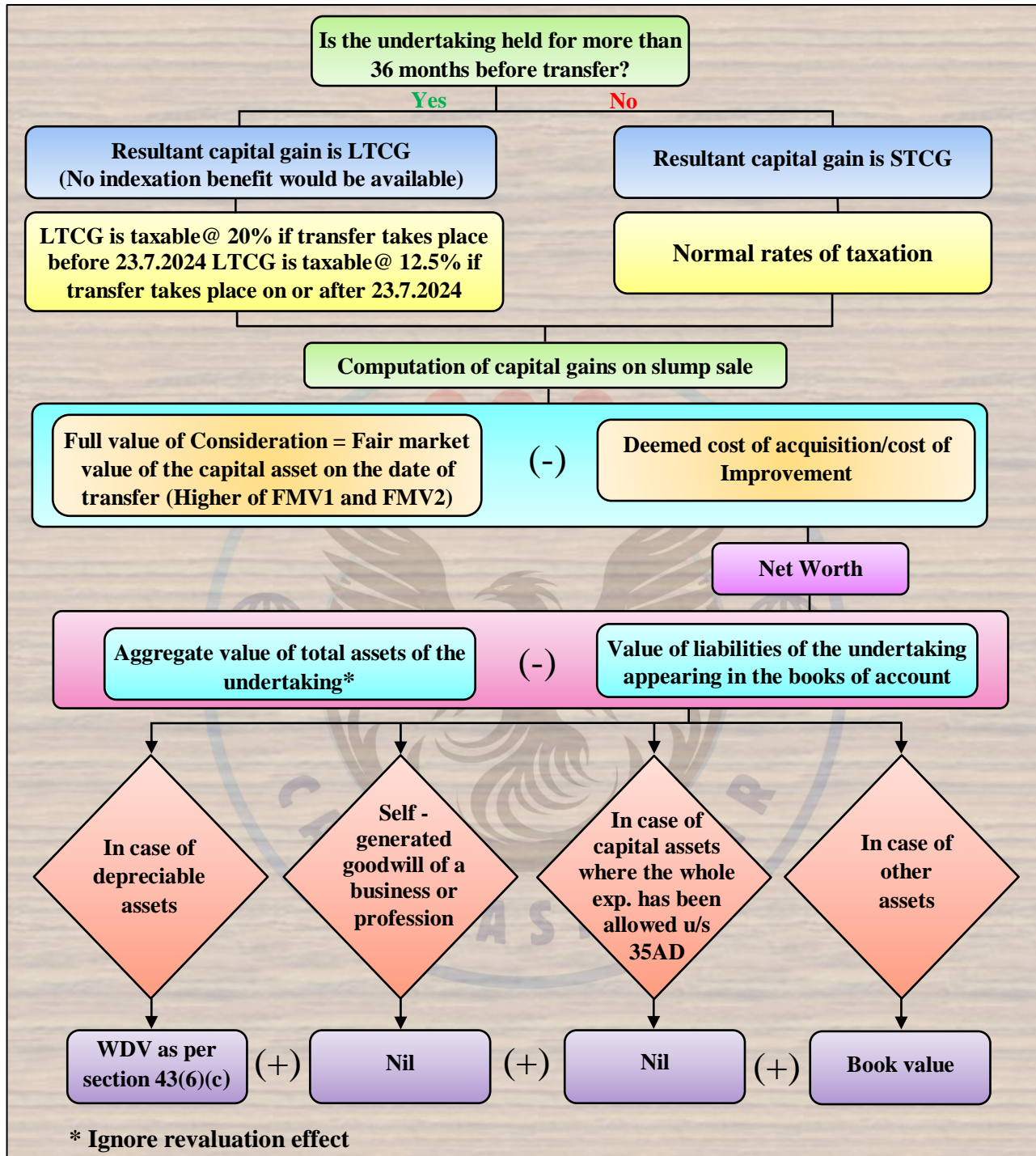
- Both Capital Gains and Business income are chargeable to tax in the year in which stock-in-trade is sold or otherwise transferred.
- FMV as on the date of conversion to be considered as cost of acquisition for computing PGBP income.
- personal asset, conversion or treatment of the same as the stock-in-trade of his business will not be trapped by the provisions of section 45(2)

3) **SEC. 45(5): COMPULSORY ACQUISITION OF CAPITAL ASSET**

| | |
|---|--|
| 1) Taxable event | Compulsory acquisition of capital asset |
| 2) Year of transfer | Year of compulsory acquisition |
| 3) Year of Chargeability: | Year of receipt of Compensation (<i>If Compensation is received in Installments, then year of receipt of First Installment.</i>) (<i>Exception to method of accounting</i>) |
| 4) Consideration: | Compensation received from Government |
| 5) Period of Holding | From the Date of Acquisition up to the date prior to the Date of Compulsory Acquisition |
| 6) Indexation Facility: | Available up to the year of Compulsory Acquisition |
| 7) Taxability of enhanced compensation, if any | a) Taxable in the year of receipt of such enhanced compensation b) COA and COI shall be taken as Nil. c) Legal expenses shall be deductible. d) Interest on enhanced compensation shall be taxable under IFOS |

Notes:

- If compensation is reduced by court/ authority, then recompute the capital gain based on revised compensation.
- If Compensation received in pursuance of an interim order made by court/authority shall be taxable only in the year of final order made by court or authority.
- In the case of death of the transferor, the enhanced compensation/ consideration shall be taxable in the hands of the recipient of such sum.

SEC 50 SERIES:**Sec 50B- SLUMP SALE:****SEC 50C:**

Applicability: For transfer of immovable property, being a capital asset (*Land, building or both*)

Provision:

- If $SDV > 110\%$ of actual consideration, SDV is to be taken as FVOC
- If $SDV \leq 110\%$ of actual consideration, AC is to be taken as FVOC

5. Capital Gains

If date of agreement and date of registration are on two different dates, then SDV on date of agreement is to be considered subject to following conditions:

- a) Full or part of the consideration must be received and
- b) It must be received on or before the date of agreement and
- c) It must be received by any mode other than cash

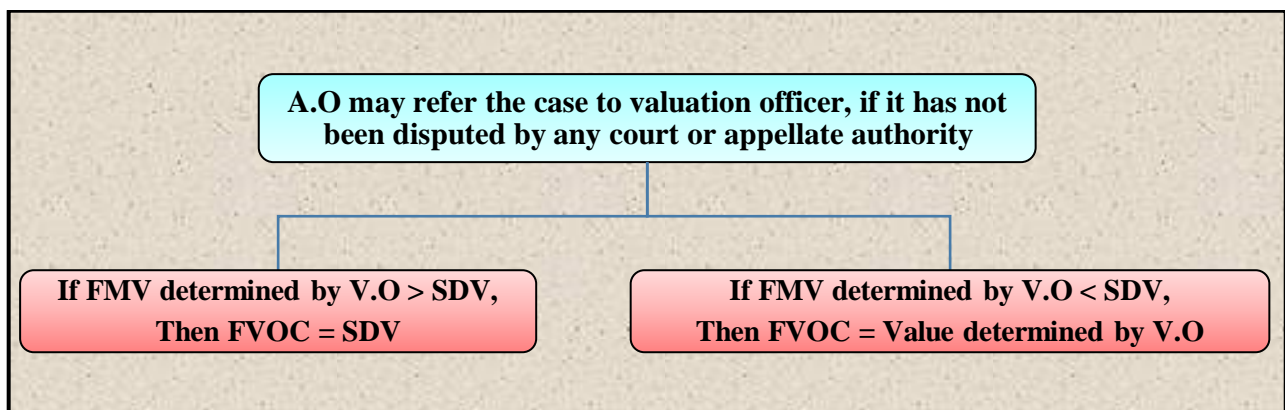
If any one of the above conditions are not satisfied, then SDV on date of registration should be taken

If assessee claims that $SDV > FMV$, then assessee is left with two options

OPTION-1: File case before court or appellate authority,

then $FVOC = \text{Value determined by court or appellate authority}$

OPTION -2: Request assessing officer to refer the case to valuation officer,

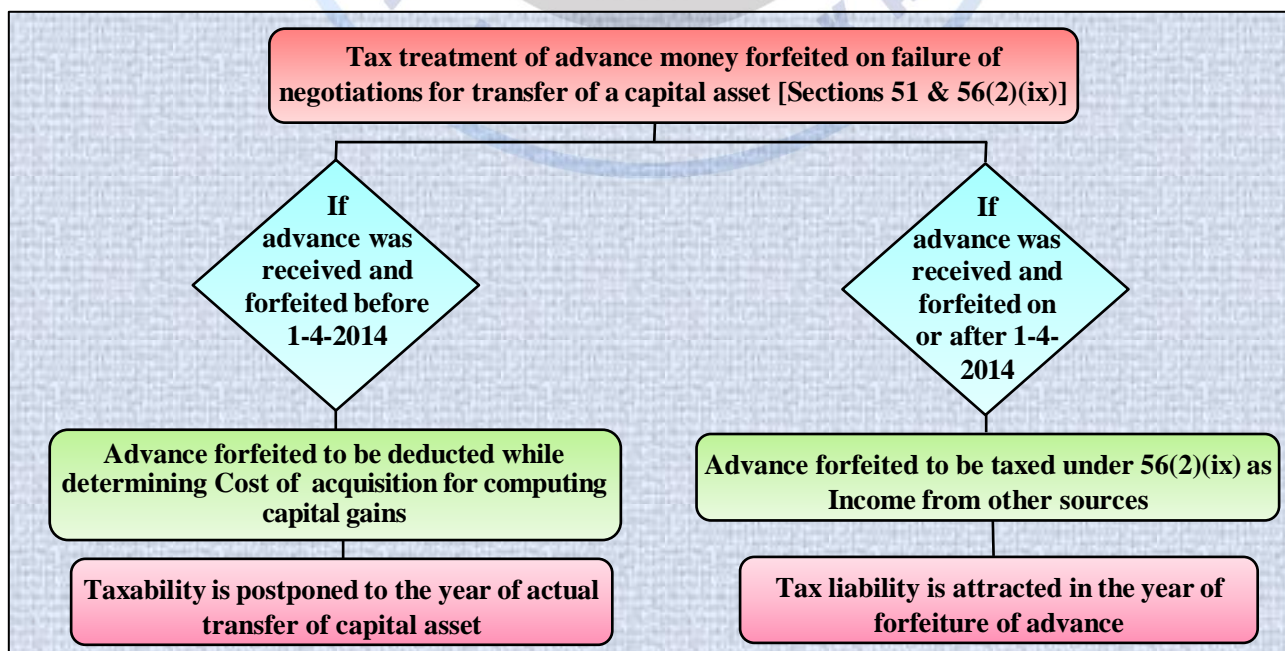


SEC 50CA:

Applicability: Sec 50CA applies on transfer of unlisted shares being a capital asset

Provision: If $AC < FMV$, then $FVOC = FMV$

SEC 51: Forfeiture of advance



Exemption of Capital Gains under section 54/54B/54D/54EC/54F:

| NO. | Particulars | SEC. 54 | SEC. 54B | SEC. 54D | SEC. 54EC | SEC. 54F |
|-----|-------------------------------------|--|---|---|---|--|
| 1) | Assessee | Ind/ HUF | Ind/ HUF | Any assessee | Any assessee | Ind/ HUF |
| 2) | Nature of Capital asset transferred | LTCA | STCA/LTCA | STCA/LTCA | LTCA | LTCA |
| 3) | Capital asset transferred | Residential house property (L/B/both) <i>[Such RHP transferred should be taxable under IFHP]</i> | Urban Agricultural land | Land and building of an industrial undertaking | Immovable Property (Land / building / both) | Any capital asset other than residential house property |
| 4) | Usage of asset transfer | -- | Should be used for agricultural purposes for 2 years immediately preceding the date of transfer (<i>either as a owner or as a tenant</i>) | Should be used for Industrial under taking for 2 years immediately preceding the date of transfer (<i>either as a owner or as a tenant</i>) | - | - |
| 5) | Mode of transfer | - | - | By way of compulsory acquisition | - | - |
| 6) | Amount to be re-invested | Gross capital gain | Gross capital gain | Gross capital gain | Gross capital gain | Net consideration |
| 7) | Re - investment should be made in | Residential house property | Agricultural land (Urban /Rural) | Land and building of an industrial undertaking | NHAI bonds/RECL bonds/ Bonds of PFC and IRFC | Only 1 Residential house property in India |
| 8) | Time limit for re-investment | <u>For Purchase:</u> <ul style="list-style-type: none"> With in 1 year before DOT With in 2 years from DOT <u>For Construction:</u> <ul style="list-style-type: none"> With in 3 years from DOT | Within 2 years from the date of transfer | Within 3 years from the Date of receipt of compensation (Sec. 54H) | Within 6 months from the date of transfer | <u>For Purchase:</u> <ul style="list-style-type: none"> With in 1 year before DOT With in 2 years from DOT <u>For Construction:</u> <ul style="list-style-type: none"> With in 3 years from DOT |

| | | | | | | |
|-----|--|---|-------------------------------|--------------------------|-------------------------------------|---|
| 9) | Capital gain account scheme | Available | Available | Available | Not available | Available |
| 10) | Amount of Exemption | G.C.G or Reinvestment or 10 crores ↓ | G.C.G or Reinvestment ↓ | G.C.G or Reinvestment ↓ | G.C.G or Reinvestment or 50 lakhs ↓ | Note Point |
| 11) | Holding period of new Capital asset | 3 years from date of P/C | 3 years from date of Purchase | 3 years from date of P/C | 5 years from date of purchase | 3 years |
| 12) | Consequence on transfer of new capital asset within 3 yrs / 5 yrs. | Earlier exemption claimed shall be reduced from COA of new Capital asset transferred | Same as Sec 54 | Same as Sec 54 | Note point | Note Point |
| 13) | Un-utilized amount of capital gain deposit | Capital gain relating to un-utilized amount shall be taxable after expiry of time limit | Same as Sec 54 | Same as Sec 54 | Not applicable | Proportionate exemption claimed relating to unutilized deposit shall be taxable |

NOTE POINTS:**For Sec 54:**

- If Gross LTCG \leq 2 crores, then re-investment 2 RHP's in India is available for exemption (but only once in a life time)
- If Gross LTCG $>$ 2 crores, then then re-investment in only 1 RHP in India is available for exemption

For Sec 54EC:

In case of –

- Transfer of bonds (or)
- Conversion of bonds (or)
- Availing loan based on bonds as security

before expiry of 5 years, then exemption claimed earlier will be taxable as LTCG in the year of violation

For Sec 54F:**a) Amount of Exemption:**

- ✓ If cost of new residential house \geq Net sale consideration of original asset, entire capital gains is exempt
- ✓ If cost of new residential house $<$ Net sale consideration of original asset, only proportionate capital gains is exempt i.e.

Step 1: Amount re-invested = Actual re-investment (or) 10 crores ↓

Step 2: Exemption u/s 54F = Gross LTCG $\times \frac{\text{Amount re-invested (Step 1)}}{\text{Net Consideration}}$

| | Net Consideration | LTCG computed | Re-investment | Step 1: Actual re-investment or 10 crores ↓ | Exemption u/s 54F = LTCG |
|----|-------------------|---------------|---------------|---|--|
| 1) | Rs. 15 crore | Rs. 7.5 crore | Rs. 12 crore | Rs. 10 crore | Rs. 7.5 crore \times 10/15 = Rs. 5 crore |
| 2) | Rs. 20 crore | Rs. 12 crore | Rs. 15 crore | Rs. 10 crore | Rs. 12 crore \times 10/20 = Rs. 6 crore |
| 3) | Rs. 16 crore | Rs. 12 crore | Rs. 8 crore | Rs. 8 crore | Rs. 12 crore \times 8/16 = Rs. 6 crore |
| 4) | Rs. 10 crore | Rs. 6 crore | Rs. 10 crore | Rs. 10 crore | Rs. 6 crore \times 10/10 = Rs. 6 crore |
| 5) | Rs. 12 crore | Rs. 6 crore | Rs. 12 crore | Rs. 10 crore | Rs. 6 crore \times 10/12 = Rs. 5 crore |

b) Additional Conditions:

- The assessee should **not** own more than one residential house on the date of transfer.
- The assessee should **not** –
- purchase any other residential house within a period of 2 years or
- construct any other residential house within a period of 3 years from the date of transfer of the original asset.

Consequences where the assessee purchases any other residential house within a period of 2 years or constructs any other residential house within a period of 3 years from the date of transfer of original asset:

The capital gains exempt earlier under section 54F shall be deemed to be taxable as long-term capital gains in the previous year in which such residential house is purchased or constructed

c) Consequences if the new house is transferred within a period of 2 years from the date of its purchase / within a period of 3 years from date of its construction:

- Capital gains would arise on transfer of the new house; and
- The capital gains exempt earlier under section 54F would be taxable as long-term capital gains

NOTE – In case the new residential house is sold after 2 years, the capital gains would be long-term capital gains

Section 54H: Extension of time for acquiring new asset or depositing or investing amount of Capital Gain in C.G.A.S

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.

Sec 112A/ Sec 111A:**Eligible Capital assets to be transferred:**

- Listed Equity Share
- Unit of Equity oriented Mutual Fund
- Unit of a business trust

Conditions to be satisfied:

- a) In case of equity share in a company, STT has been paid on acquisition and transfer of such capital asset
- b) In case of unit of an equity-oriented fund or unit of business trust, STT has been paid on transfer of such capital asset.

STCA (or) LTCA:

- If nature of above eligible C.A is STCA, Sec 111A gets attracted
- If nature of above eligible C.A is LTCA, Sec 112A gets attracted

Period of Holding to be considered for classifying LTCA or STCA:

| Capital Asset | Period of holding before 23-7-2024 | Period of holding On or after 23-7-2024 |
|-------------------------------------|------------------------------------|---|
| Listed Equity Share | 12 months | 12 months |
| Unit of Equity oriented Mutual Fund | 12 months | 12 months |
| Unit of Business Trust | 36 months | 12 months |

If above eligible capital assets are acquired before 01-02-2018 and transferred on or after 01-04-2018, then special COA is available in calculation of capital gains for such transfers:

Special COA:

Step 1: FVOC (or) FMV as on 31-01-2018 ↓

Step 2: Result of Step 1 (Or) Actual Cost ↑

NOTE: Sec 112A/111A is not applicable if date of transfer of eligible capital assets is before 01-04-2018. In such case, Sec 10(38) gets attracted, which exempts capital gains on transfer of these eligible capital assets.

QUESTION: X, Y, Z, A, B and C are resident individuals. They transfer the following mutual fund units/ debentures-

| | X | Y | Z | A | B | C |
|--|-----------------------------|-----------------|----------------|----------------|---------------|----------------------|
| Name of mutual fund | SBI MF | SBI MF | SBI MF | SBI MF | SBI MF | |
| Name of Market linked debentures | - | - | - | - | - | Debentures of P Ltd. |
| Subscription period | May 1, 2021 to May 10, 2021 | | | | | |
| Date of acquisition of mutual fund units/ debentures by the assessee | January 1, 2023 | January 1, 2023 | April 10, 2023 | April 10, 2023 | June 30, 2021 | May 15, 2021 |
| Amount invested | 11,00,000 | 14,00,000 | 17,00,000 | 12,00,000 | 21,00,000 | 23,00,000 |

5. Capital Gains

| | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| How much proceed of mutual fund is invested in equity shares in domestic company by the fund manager | 30% | 50% | 30% | 50% | 70% | N.A. |
| Date of transfer | May 15, 2026 | May 15, 2026 | May 15, 2026 | May 15, 2026 | May 15, 2026 | May 15, 2026 |
| Sale proceeds | 26,00,000 | 28,00,000 | 24,00,000 | 43,00,000 | 69,00,000 | 28,00,000 |

(CII of 2022 – 23 is 331 and it is assumed that CII of 2023 – 24 and 2026 – 27 is 348 and 395 respectively)

ANSWER:

Capital gain will be computed as follows

| | X | Y | Z | A | B | C |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Whether sec. 50AA is applicable | No | No | Yes | No | No | Yes |
| Whether sec. 112 is applicable | Yes | Yes | No | Yes | No | No |
| Whether sec. 112A is applicable | No | No | No | No | Yes | No |
| Full value of Consideration | 26,00,000 | 28,00,000 | 24,00,000 | 43,00,000 | 69,00,000 | 28,00,000 |
| Less: cost of Acquisition | - | - | 17,00,000 | - | 21,00,000 | 23,00,000 |
| Less: Indexed COA | 11,00,000 | 14,00,000 | - | 12,00,000 | - | - |
| Short-term capital gain | - | - | 7,00,000 | - | - | 5,00,000 |
| Long-term capital gain | 15,00,000 | 14,00,000 | - | 31,00,000 | 48,00,000 | - |

Sec 50AA:

Section 50AA provides for the computation of capital gains in case of transfer Of

- unit(s) of a Specified Mutual Fund acquired on or after 1.4.2023 (Or)
- a Market Linked Debenture or
- an unlisted bond or unlisted debentures which is transferred **on or after 23.7.2024**

NOTE: The above capital assets are **always** treated as **short term capital assets**

| S. No. | Term | Meaning |
|--------|-------------------------|---|
| (i) | Market Linked Debenture | A security i) which has an underlying principal component in the form of debt security; and ii) where the returns are linked to market returns on other underlying securities or indices. It includes any security classified or regulated as a market linked debenture by the SEBI. |
| (ii) | Specified Mutual Fund | A Mutual Fund where not more than 35% of its total proceeds is invested in the equity shares of domestic companies. However, the percentage of equity shareholding held in respect of the Specified Mutual Fund shall be computed with reference to the annual average of the daily closing figures. |

Example for Market Linked Debenture (MLD):**1) Nifty 50 Linked MLD**

A company issues a **3-year Market-Linked Debenture (MLD)** with the following features:

- Principal Amount: ₹10,00,000
- Maturity Period: 3 years
- Linked Benchmark: Nifty 50 Index
- Return Structure:
 - If Nifty 50 rises by 20% or more, the investor gets 25% return (₹12,50,000 in total).
 - If Nifty 50 rises between 5% and 20%, the investor gets a proportionate return.
 - If Nifty 50 falls or remains flat, only the principal (₹10,00,000) is returned, with no interest.

Tax Rates:

Rates of tax on Long-term Capital Gains (LTCG)

| Section | Rate of tax | |
|---------------|---|---|
| LTCG u/s 112A | In excess of 1,25,000 would be taxable - @10% flat rate, if transfer is before 23-7-24 - @12.5% flat rate, if transfer is made on or after 23-7-24 NOTE: Total exemption for LTCG u/s 112A in PY 24-25 cannot exceed 1.25 lakhs | |
| LTCG u/s 112 | Long-term capital asset (LTCA) | Rate of tax |
| | If transfer takes place before 23.7.2024 | |
| | Listed securities (other than a unit) or a zero-coupon bond | - 10% without indexation or - 20% with indexation benefit whichever is more beneficial to the assessee |
| | Other Assets (other than taxable u/s 112A) | - 20% with indexation benefit |
| | If transfer takes place on or after 23.7.2024 | |
| | For all assets | 12.5% (Without indexation benefit) Exception: a) If transferor is resident Individual or resident HUF (and) b) Capital asset transferred is land, building or both [residential or commercial] (and) c) Such above capital asset was acquired before 23-7-2024 (and) d) Such above asset is transferred on or after 23-7-2024 If all the above 4 conditions are satisfied, resident individual or resident HUF can choose any one of the following options, whichever is more beneficial Option 1: Pay tax @ 12.5% (without indexation) Option 2: Pay tax @ 20% (with indexation) [If the resultant amount is loss, then it shall be ignored (i.e., Not eligible to setoff and carryforward)] |

Rates of tax on Short Term Capital Gain:

| Section | Rate of tax |
|---------------------------|---|
| STCG u/s 111A | a) If transfer takes place before 23-07-2024, tax rate is flat 15% b) If transfer takes place on or after 23-07-2024, tax rate is flat 20% |
| STCG (Other than Sec111A) | Normal tax rates applicable to the assessee |

QUESTION: X, Y and Z want to ascertain their tax liability pertaining to transfer of land, building given below –

| | X | Y | Z |
|---|----------------------------|----------------------------|----------------------------|
| Sale consideration | 40,00,000 | 41,00,000 | 42,00,000 |
| Stamp duty value | 39,00,000 | 41,50,000 | 37,00,000 |
| Cost of Acquisition | 20,000 | 15,00,000 | 80,000 |
| Cost of improvement (incurred in the year of acquisition) | 3,000 | 4,000 | 6,000 |
| Expenditure on transfer | Nil | Nil | Nil |
| Date of Acquisition | May 10 th 2004 | June 10 th 2005 | July 10 th 2005 |
| Date of transfer | July 30 th 2024 | July 25 th 2024 | July 20 th 2024 |

Income other than capital gain is not more than ₹ 15,00,000 in the above cases-

| | X | | Y | | Z |
|---|------------|--------------------|------------|--------------------|-----------|
| | Indexation | Without indexation | Indexation | Without indexation | |
| Full value of consideration | 40,00,000 | 40,00,000 | 41,00,000 | 41,00,000 | 42,00,000 |
| Less: COA | - | 20,000 | - | 15,00,000 | - |
| Less: Indexed COA | 64,248 | - | 46,53,846 | - | 2,48,205 |
| Less: Cost of Improvement | - | 3,000 | - | 4,000 | - |
| Less: Indexed COI | 9,637 | - | 12,410 | - | 18,615 |
| Long-term capital gain | 39,26,115 | 39,77,000 | (5,66,256) | 25,96,000 | 39,33,179 |
| Tax rate (with health and education cess) (Surcharge not applicable) | 20.80% | 13% | 20.80% | 13% | 20.80% |
| Tax liability | 8,16,632 | 5,17,010 | Nil | 3,37,480 | 8,18,101 |

In the case of X, it is beneficial to pay tax without indexation and 12.5%. Y can reduce his tax bill if he pays tax with indexation and 20% tax. However, capital loss of ₹ 5,66,256 cannot be set-off or carried forward. Technically, long-term capital gain of Y is ₹ 25,96,000 but liability is Zero. However, in the case of Z, option is not available (asset is transferred prior to July 23, 2024).

Buy back of Shares:**Till 30-09-2024:**

| CASE | COMPANY | SHAREHOLDER/ HOLDER OF SPECIFIED SECURITIES |
|--|---|--|
| Buyback of shares by domestic companies (Listed or Un-listed) | Subject to additional income tax @ 23.296% on distributed income. | Income arising to shareholders exempt under section 10(34A) |
| Buyback of shares/specified securities by a company, other than a domestic company | Not subject to tax in the hands of the company. | Income arising to shareholder taxable as capital gains u/s 46A |

NOTE: Distributed Income = (Buyback price – Issue Price)**W.E.F 01-10-2024:**

| CASE | IN HANDS OF COMPANY | IN HANDS OF SHAREHOLDER/ HOLDER OF SPECIFIED SECURITIES | | | | | | |
|---|---|--|----------------------|--------|---|-----------------------|------------|-----------------------|
| Buyback of shares/other specified securities by a company | <ul style="list-style-type: none">Not liable to pay any tax on distributed incomeBut is liable to deduct TDS u/s 194 @ 10% | <p><u>Under the head IFOS:</u></p> <p>Amount received by shareholder on account of buy-back of shares is treated as deemed dividend u/s 2(22) (f) and is taxable under IFOS.</p> <p>[No deduction is allowed u/s 57].</p> <p><u>Under the head Capital Gains (Sec 46A):</u></p> <p><u>As Buyback of shares is a “Transfer”-</u></p> <table><tr><td>FVOC (Considered as)</td><td>= Zero</td></tr><tr><td><i>Less:</i> COA (No Indexation)</td><td>= <u>(XXX)</u></td></tr><tr><td>LTCL/ STCL</td><td>= <u>(XXX)</u></td></tr></table> | FVOC (Considered as) | = Zero | <i>Less:</i> COA (No Indexation) | = <u>(XXX)</u> | LTCL/ STCL | = <u>(XXX)</u> |
| FVOC (Considered as) | = Zero | | | | | | | |
| <i>Less:</i> COA (No Indexation) | = <u>(XXX)</u> | | | | | | | |
| LTCL/ STCL | = <u>(XXX)</u> | | | | | | | |

Example:**QUESTION:**

On March 3, 2023, X Ltd. purchases its own shares (face value: ₹10, amount offered to shareholders: ₹90 per share). Total amount distributed by X Ltd. on buy-back of 20,000 shares is ₹18,00,000. These shares were issued in 2004-05 at a premium of ₹ 15. A is one of the shareholders. He holds 2,000 shares (cost of acquisition: ₹27 per share, year of acquisition: 2007-08). He gets ₹1,80,000. Compute the tax liability in the hands of A and X Ltd.

SOLUTION: Tax consequences in the hands of A and X Ltd. are given below:

A is not chargeable to tax. His capital gain is exempt under section 10(34A). However, X Ltd. will have to pay tax on distributed income under section 115QA as follows –

| | Amount (₹) |
|---|------------|
| Amount paid to shareholders at the time of buy-back (₹90 x 20,000) | 18,00,000 |
| Less: Amount received at the time of issue of shares (₹ 25 x 20,000) | (5,00,000) |
| Distributed income | 13,00,000 |

5. Capital Gains

| | |
|---|----------|
| Tax on distributed income @ 20% | 2,60,000 |
| Add: Surcharge @ 12% | 31,200 |
| | 291,200 |
| Add: Health and education cess [4% of (₹ 2,60,000 + ₹ 31,200)] | 11,648 |
| Tax liability of X Ltd. under section 115QA | 3,02,848 |

QUESTION: 150 shares bought in 2005 @ 50 per share. 20 shares bought back on 9-12-24 @ 65 per share. 50 shares sold on 16-1-2025 @ 75 per share. Give tax treatment

ANSWER:

On Buyback of 20 shares @ 65 per share

Under the head IFOS:

- Amount received on buyback by shareholder 1,300 (20×65) is taxable under the head other sources

Under the head C.G:

| Particulars | Amount (Rs.) |
|--|--------------|
| Full value of consideration | 0 |
| Less: Cost of acquisition (20×50) | (1000) |
| Long term Capital loss | (1,000) |

On sale of 50 shares @ 75 per share:

Under the head C.G:

| Particulars | Amount (Rs.) |
|--|--------------|
| Full value of consideration (50×75) | 3,750 |
| Less: Cost of acquisition (50×50) | (2,500) |
| Long term Capital Gain | 1,250 |

Taxable LTCG = 1,250 – 1,000 = 250

6. PROFITS OR GAINS OF BUSINESS OR PROFESSION

SECTIONS COVERED: Sec 28 to 44

CHARGING SECTION: Sec 28

METHOD OF ACCOUNTING: Cash or accrual basis, as may be followed by the assessee, except Sec 32, Sec 35D, Sec 35DDA, Sec 43B.

INCOME CHARGEABLE UNDER THIS HEAD [SECTION 28]

- 1) **Income from business or profession:** Income arising to any person by way of profits and gains from the business or profession carried on by him at any time during the previous year.
- 2) **COMPENSATIONS:**
 - **Any compensation received by a person for termination or modification of:**
 - a) Management Contract relating to substantially whole of the affairs of an Indian company or affairs in India for any other company.
 - b) Agency Contract relating to business activity in India.
 - c) Terms and conditions of any business contract shall be taxable as business income.
 - Any compensation received due to the vesting of management of a business or property in favour of the government or a government-owned corporation.

NOTE: If interest on compensation is received, then it shall be taxable under the head IFOS.
- 3) Income derived by any trade, professional or similar associations from specific services rendered by them to their members is taxable under the head PGBP.
- 4) The following export incentives received from government are taxable under the head PGBP
 - Profit on sale of import entitlement license
 - Cash assistance against exports under any scheme of GOI
 - Customs duty or excise duty drawback
- 5) Any perquisite that arises during the course of business or profession is taxable under the head PGBP.
- 6)
 - Any interest, salary, bonus, commission or remuneration received by a partner of a firm from such firm will be deemed as be income to the partner under the head PGBP.
 - Share of profit received by partner from a partnership firm is not taxable under the head PGBP
- 7)
 - Non- compete fees received for not carrying out any business activity (*or*)
 - Non- compete fees received for not sharing any know-how, patent, copyright, trademark, license, 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.
 - If any sum received for transfer of right to manufacture, produce / process or any article or thing or right to carry on business shall be chargeable under the head “Capital Gain”.

- 8) Any sum received by the employer, under a Keyman insurance policy including the sum allocated by way of bonus on such policy is taxable under the head PGBP.
- 9) In case of conversion of inventory into capital asset, FMV of inventory on the date of conversion is to be treated as capital asset.
- 10) Any sum received on account of capital asset being demolished, destroyed, discarded or transferred for which 100% of expense is allowed as deduction under section 35AD.

SEC 30 TO 37 [ALLOWABLE EXPENSES]:

Sec 30: BUILDING EXPENSES

- A. If assessee is the **owner** of the building and is using it for business or profession, following expenses are allowed as deduction:
- Depreciation u/s 32
 - Revenue repairs
 - Cesses, rates and taxes levied by a foreign Government are also allowed.
 - Fire insurance premium
 - Municipal taxes
- B. If assessee is the **tenant** of the building and is using it for business or profession, following expenses are allowed as deduction:
- Rent u/s 37
 - Revenue repairs
 - Fire insurance premium
 - Municipal taxes

NOTE:

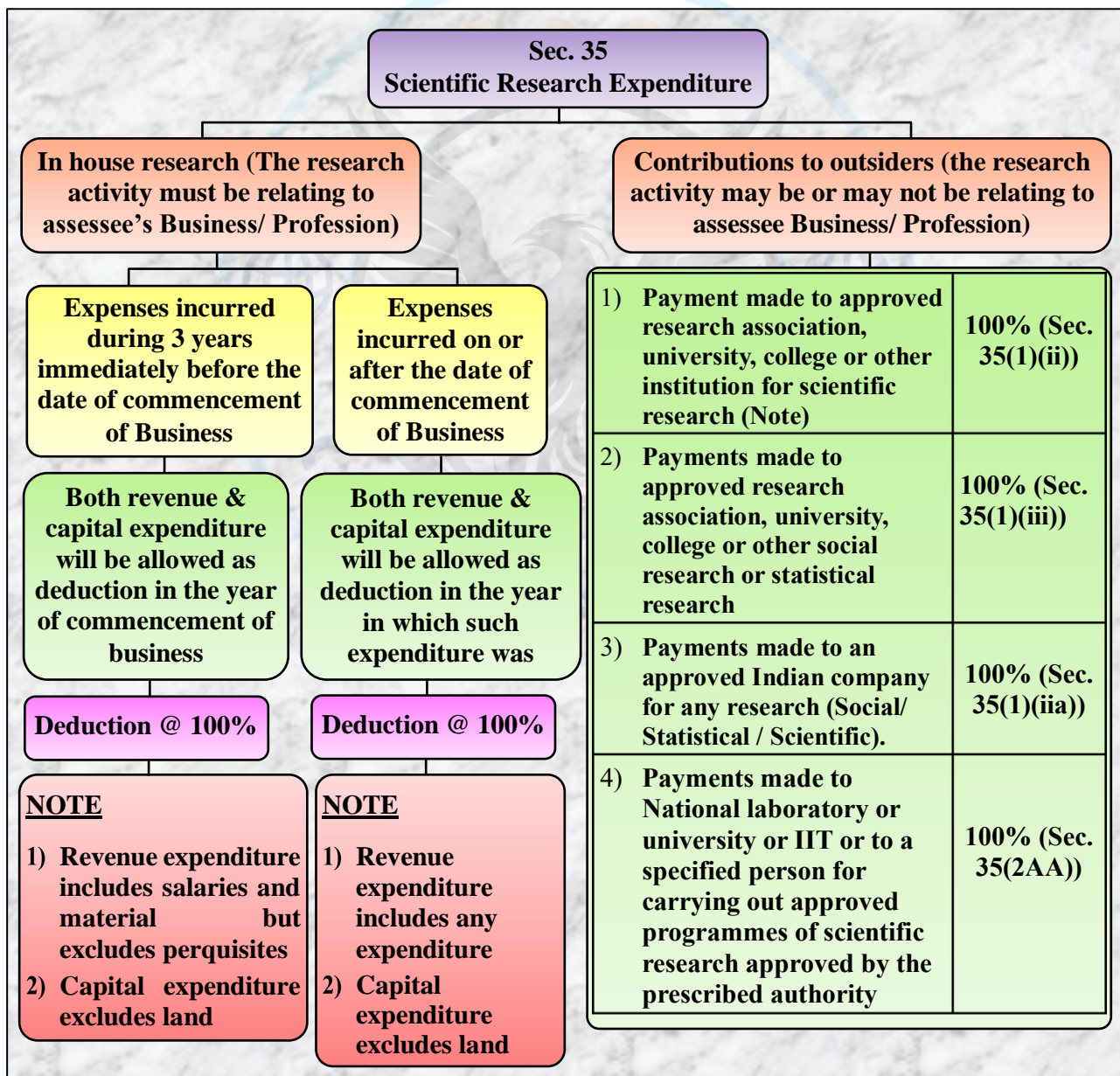
- 1) Notional rent will not be allowed as deduction in case of sole proprietary concern
- 2) Rent paid by partnership firm to its partner (being the owner) is allowed as deduction
- 3) Capital repairs will not be allowed as deduction, but depreciation of such repairs will be allowed as deduction under Sec.32
- 4) Where the premises are used partly for business and partly for other purposes, only a proportionate part of the expenses attributable to that part of the business premises will be allowed as a deduction

Sec 31: EXPENSES OF PLANT, MACHINERY AND FURNITURE:

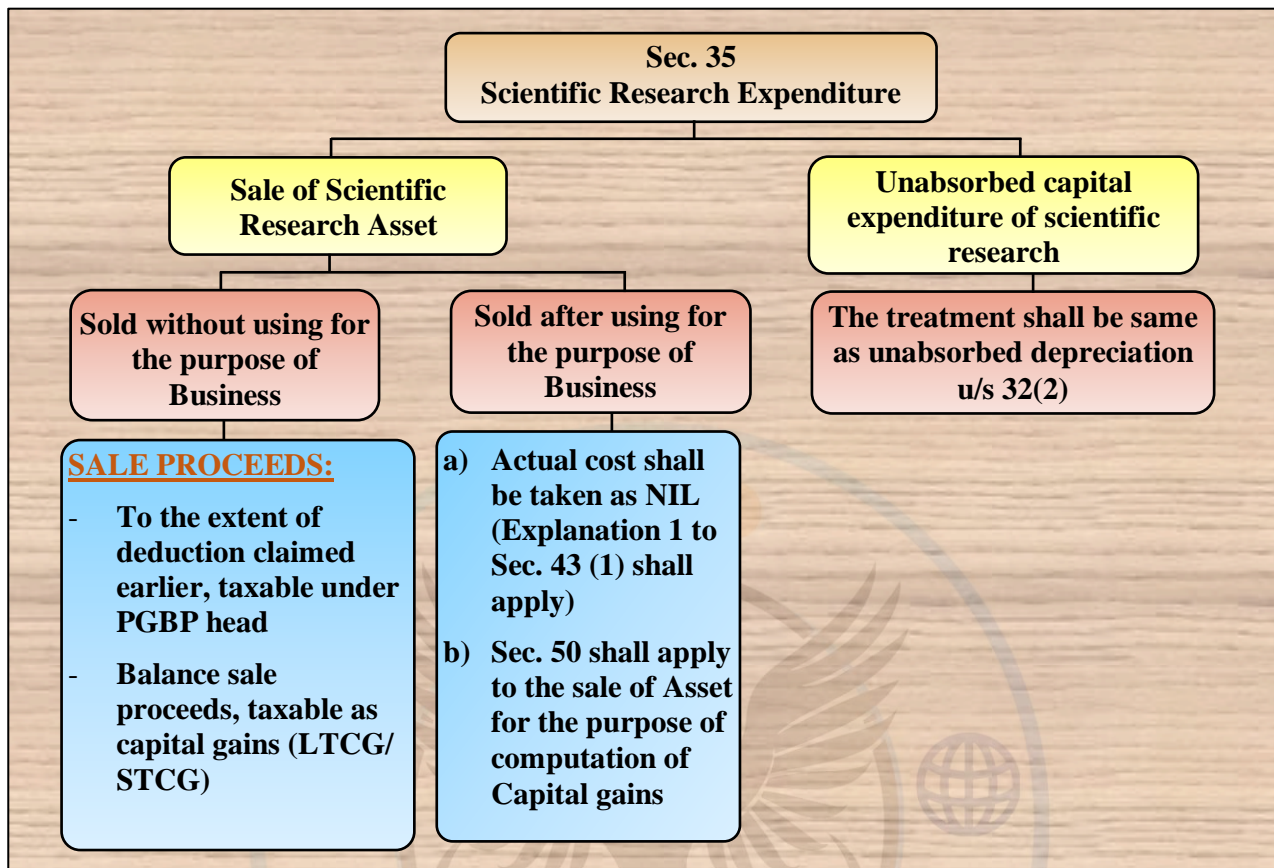
- A. If assessee is the **owner** of the P&M, furniture and used (active usage or passive usage) it for business or profession, following expenses are allowed as deduction:
- Depreciation u/s 32
 - Revenue repairs
 - Fire insurance premium
- B. If assessee is the **tenant** of the P&M and used (active usage or passive usage) it for business or profession, following expenses are allowed as deduction:
- Rent u/s 37
 - Revenue repairs
 - Fire insurance premium

NOTE:

- 1) Insurance and repair charges of assets which are owned by the assessee but have not been used for the business during the previous year would not be allowed as a deduction.
- 2) Even if an 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 charges and not merely an amount proportionately to the period of use.
- 3) 'repairs' will include renewal or renovation of an asset but not its replacement or reconstruction.
- 4) Capital Repairs shall not be allowed as deduction, but depreciation of such repairs will be allowed on deduction under Sec.32.

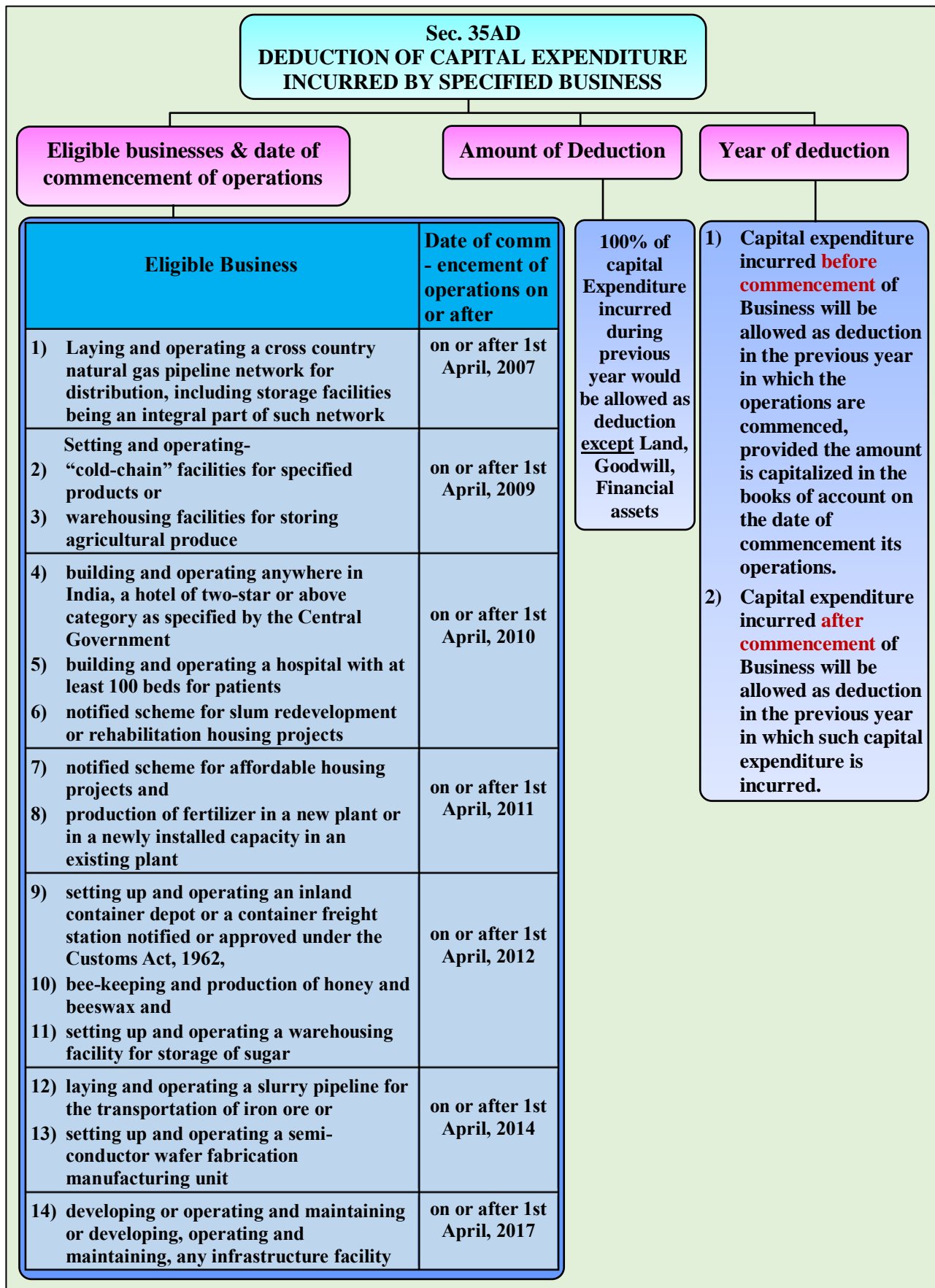
Sec.35 – EXPENDITURE ON SCIENTIFIC RESEARCH

NOTE: Deduction for Contributions to outsiders u/s 35(1)(ii), 35(1)(iia), 35(1)(iii), 35(2AA) is **not available** if assessee is paying taxes under **default tax rates**.



STUDENT NOTES:

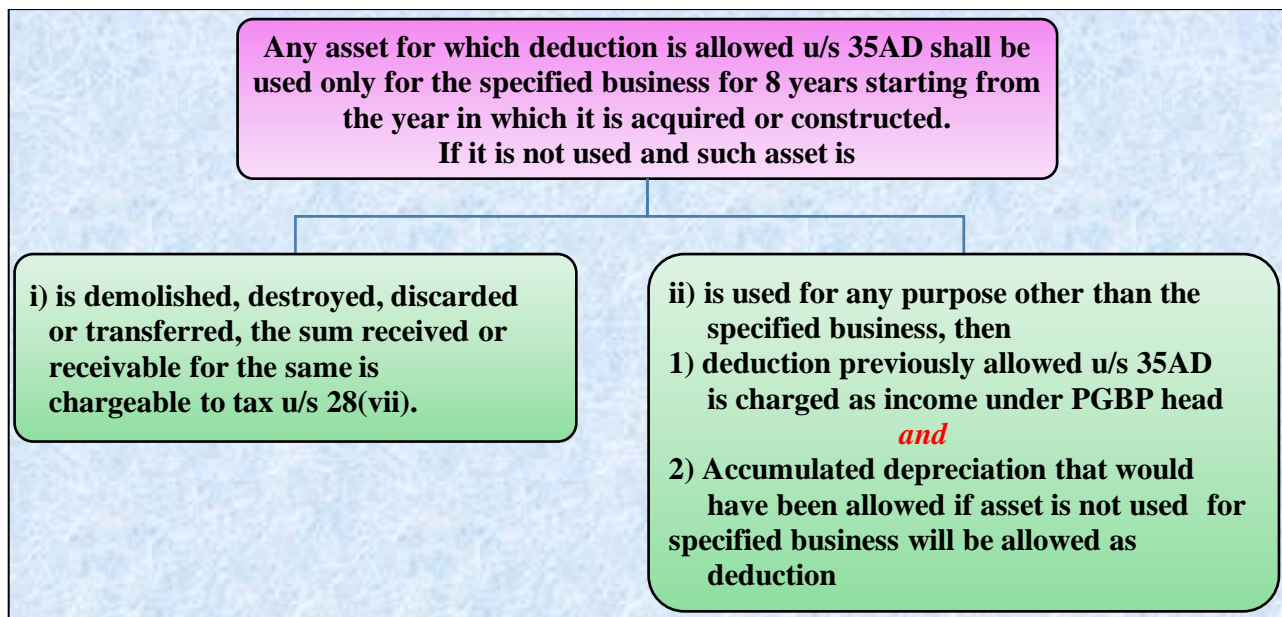


Sec.35AD – “INVESTMENT – LINKED TAX INCENTIVES” FOR SPECIFIED BUSINESS

NOTE:

- 1) Deductions u/s 35AD is not available if assessee is paying taxes u/s 115BAA, 115BAB, 115BAC, 115BAD and 115BAE.
- 2) Any loss from the specified business can be set off against the profit of another specified business even though such another specified business was not eligible under Sec.35AD (Sec.73A).
- 3) Any expenditure in respect of which payment or aggregate of payment made to a person of an amount exceeding Rs. 10,000 in a day paid through cash/ bearer cheque would not be eligible for deduction.
- 4) Conditions for claiming deduction u/s 35AD
 - i) The specified business should not be setup by splitting up, or the reconstruction, of a business already in existence.
 - ii)
 - Specified business should not be set up by transfer of old plant and machinery.
 - **Exception:** 20% of value of plant & machinery can be old P&M
 - Imported second hand P&M can be deemed as new P&M subject to following conditions
 - a) Such P&M was not used in India previously and
 - b) Such P&M is imported to India from any country outside India and
 - c) No depreciation has been allowed previously on such P&M to any person in India
- 5) once the assessee has claimed the benefit of deduction under section 35AD for a particular year in respect of a specified business, he cannot claim benefit under Chapter VI-A under the heading "C - Deductions in respect of certain incomes" or section 10AA for the same or any other year and vice versa. No deduction is allowed under any other provisions of the act.
- 6) Infrastructure facility:
 - i) A road including toll road, a bridge or a rail system.
 - ii) A highway project including housing or other activities being an integral part of the highway project.
 - iii) A water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system.
 - iv) A port, airport, inland waterway, inland port or navigational channel in the sea.
- 7) The deduction shall be allowed only if the accounts are audited by a Chartered Accountant and audit report thereof is furnished along with the return of income.
- 8) Where the assessee builds a hotel of two-star or above category as classified by the central Govt. and subsequently, while continuing to own the 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.

9)



Sec 35D: AMORTISATION OF PRELIMINARY EXPENSES INCURRED BY AN INDIAN COMPANY AND RESIDENT NON-CORPORATE ASSESSEES

What Preliminary Expense Means?

- i) Expense for preparation of feasibility report, project report, conducting market survey and other engineering services necessary for assessee's business.
- ii) legal charges for drafting any agreement relating to the setting up to conduct the business of assessee.
- iii) Where the assessee is a company, in addition to the above, expenditure incurred –
 - by way of legal charges for drafting the MOA and AOA of the company;
 - on printing the Memorandum and Articles of Association;
 - by way of fees for registering the company under the Companies Act; 2013.

| For - | Preliminary Expenses Means |
|--|---|
| ➤ Setting up of a new unit | ➤ expenses incurred till the new unit commences production or operation |
| ➤ extension of an existing undertaking | ➤ expenses incurred till the extension is completed |
| ➤ new companies | ➤ expenses incurred before the commencement of the business |

ELIGIBLE PRELIMINARY EXPENSES:

| Indian Company | Resident Non- corporate assessee |
|--|---|
| <u>Step 1:</u> 5% of cost of project (or) 5% of capital employed | Eligible preliminary expenses = 5% of cost of project (or) Actual preliminary expenses |

| | |
|--|--|
| Step 2: Actual Preliminary Expenses | |
| Step 3: Eligible Preliminary Expenses | |
| = S1 (or) S2, whichever is lower. | |

- Above calculated eligible preliminary expenses are allowed as deduction over a period of 5 years in 5 equal installments starting from the previous year in which
- Business is commenced (*or*)
 - Extension of undertaking is completed (*or*)
 - New unit commences production
- **COST OF THE PROJECT:**
- a) **Expenses incurred before the commencement of business:** the actual cost of the fixed assets, which are shown in the books of the assessee as on the last day of the previous year in which the business commences.
- b) **Expenses incurred for extension of the business or setting up of a new unit:** The cost of the fixed assets, which are shown in the books of the assessee as on the last day of the previous year in which the undertaking expanded or the new unit commences production or operation.
- **CAPITAL EMPLOYED:**
- a) **In the case of new company:** The aggregate of the issued share capital, debentures and long-term borrowings as on the last day of the previous year in which the business commences.
- b) **In the case of extension of the business or the setting up of a new unit:** The aggregate of the issued share capital, debentures, and long-term borrowings as on the last day of the previous year in which the undertaking expanded or the new unit commences production or operation.
- If assessee is a person other than Company/ Co-operative society, then deduction u/s 35D is admissible only if BOA of assessee are audited by CA for the year or years in which the expenditure is incurred by the assessee.

Sec 35DDA: AMORTISATION OF VRS EXPENSE PAID BY EMPLOYER

- 1) VRS expense is allowed as deduction on cash basis
- 2) Deduction will be allowed in 5 equal instalments starting from the previous year in which VRS expense is paid.
- 3) If compensation paid on instalment basis, then each instalment shall be allowed as deduction for 5 equal instalments.
- 4) Where voluntary retirement payment is made by predecessor and before completion of 5 years, it is succeeded in a scheme of business reorganisation (*like amalgamation, demerger, conversion of firm/company into LLP*), the deduction for remaining years will be available to the successor from the year in which conversion takes place.

Deductions u/s 36:

Sec 36(1): Insurance Premium is deductible in following cases-

- 1) Any insurance premium paid against risk of damage or destruction of stocks and stores, used for the purposes of business or profession.

- 2) Insurance premium paid by a federal milk co-operative society on the lives of cattle, owned by the members of a primary milk- co-operative society affiliated to it.
- 3) Health insurance policy premium (*as approved by IRDA*) paid by employer by any mode other than cash.

Sec 36(1)(ii): Bonus or commission to employees is allowable as deduction only on payment basis subject to Sec 43B

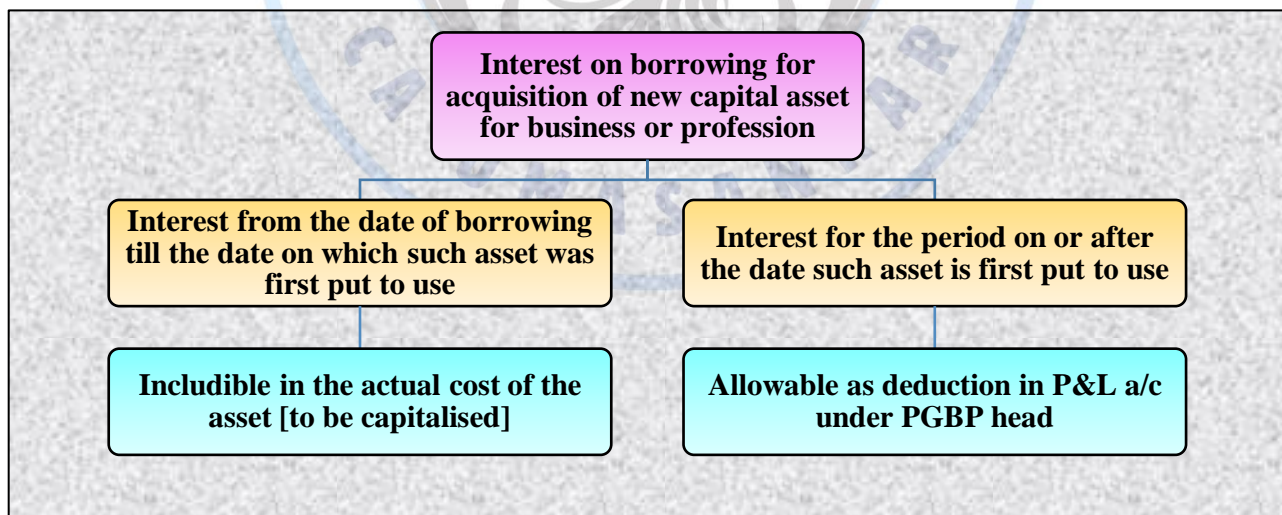
Sec 36(1)(iii): Interest on borrowed capital:

Interest on borrowed capital allowed as deduction subject to following conditions:

- 1) Assessee must have borrowed money
- 2) Borrowed money must have used for business or profession
- 3) Interest is paid or payable on such borrowing

NOTE:

- Interest paid on owner's capital is not allowed as deduction in case of sole proprietary business.
- Interest paid on partner's capital is allowed as a deduction to partnership firm sub to Sec 40b.
- Capital may be borrowed for several purposes like for acquiring a capital asset, or to pay off a trading debt or loss etc.
- Capital may be borrowed in the course of the existing business as well as for acquiring assets for extension of existing business.
- In case of genuine borrowings, the A.O cannot object even if the rate of interest is very high
- Interest on loan taken from financial institutions or schedule banks is allowed as deduction (subject to 43B)



Sec 36(1)(iiia): Discount on Zero Coupon Bonds:

- Discount on zero coupon bonds is allowed as deduction on pro rata (proportionate) basis across the "Period of life of the bond".
- **Discount:** Difference between amount received and amount payable on redemption by issuing company.

- **“Period of life of the bond”:** period commencing from date of issue of the bond and ending on date of maturity of such bond.

Sec 36(1)(iv):

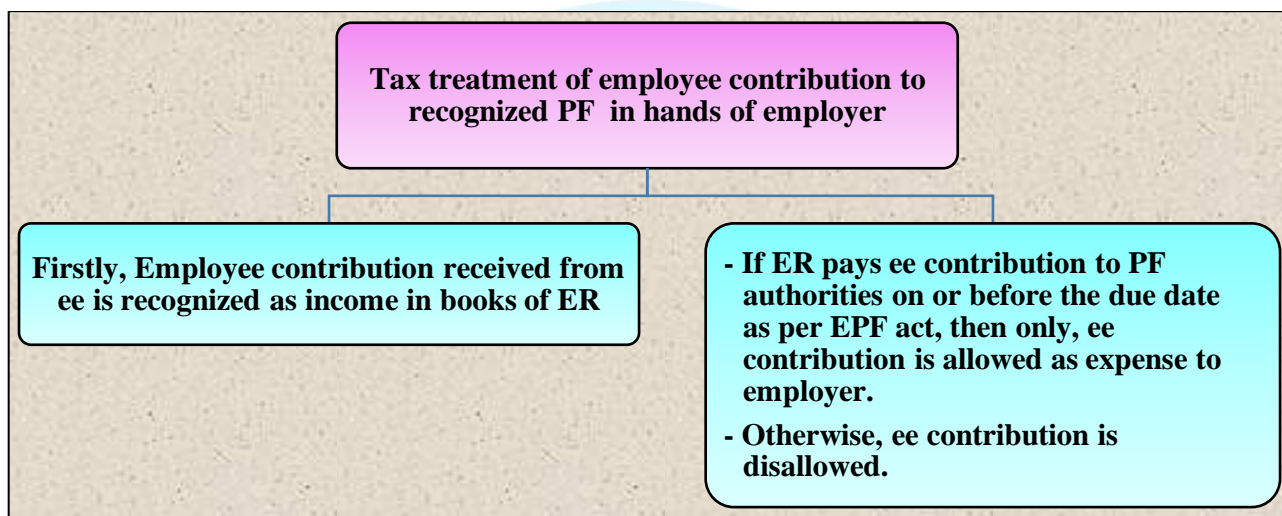
Employer's contribution to recognised provident fund and approved superannuation fund is allowed as deduction to the extent it is required by law (subject to 43B)

Sec 36(1)(iva):

Employer contribution to NPS account of employee u/s 80CCD is allowed as deduction to the extent of 14% of salary.

$$\text{Salary} = \text{Basic} + \text{D.A (F.P.R.B)}$$

Sec 36(1)(iva): Employee contribution towards staff welfare schemes:



Sec 36(1)(vi): DEDUCTION OF ANIMALS USED IN BUSINESS OTHERWISE THAN STOCK IN TRADE (LIVESTOCK)

Year of deduction: Deduction will be allowed in the year of death or in the year animal becomes permanently useless

Amount of Deduction = Actual cost of animal – amount realized on sale of [*animal (or) dead body of animal*]

Sec 36(1)(vii): BAD DEBTS

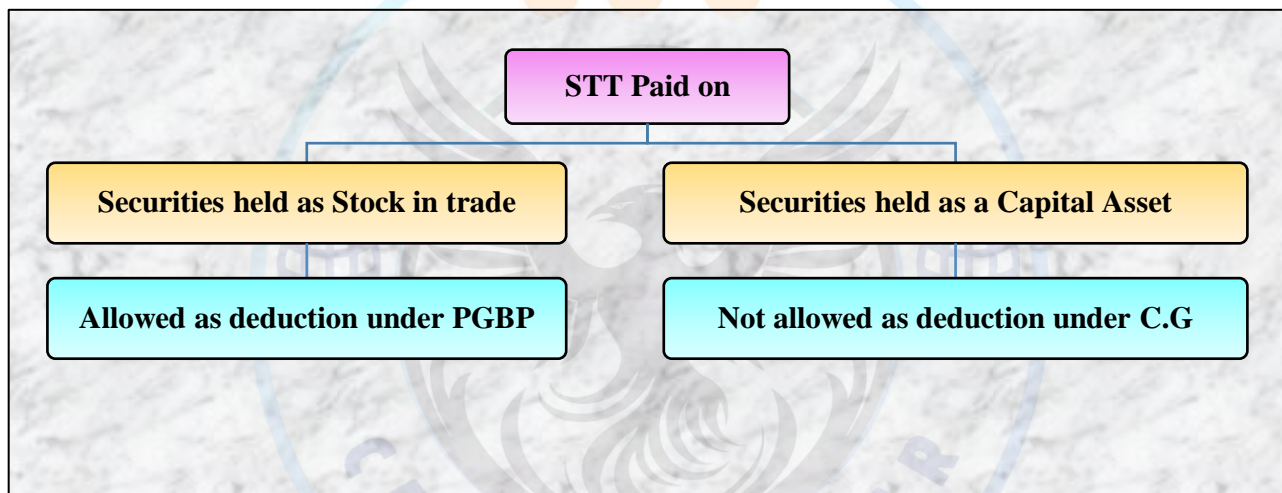
- a) Bad debts are allowed as deduction subject to following conditions-
 - The debt should be incidental to the business or profession.
 - It should have been taken into account in computing the income of the assessee in P.Y such debt is written off or in any earlier P.Y (or) it should represent money lent in the course of business of banking or money lending.
 - The debt must have been written off in the books of accounts of assessee.
- b) Provision for bad debts is not allowed as deduction.
- c) Bad debts must be in revenue in nature
- d) Debts of a discontinued business not deductible

- e) Recovery of a bad debt subsequently [Section 41(4)] - If bad debts are allowed as deduction in earlier years, and subsequently there is recovery of bad debts, such recovery of bad debts are taxable as income under the head PGBP in the year of recovery (*whether or not the business or profession in respect of which the deduction has been allowed is in existence at the time*).

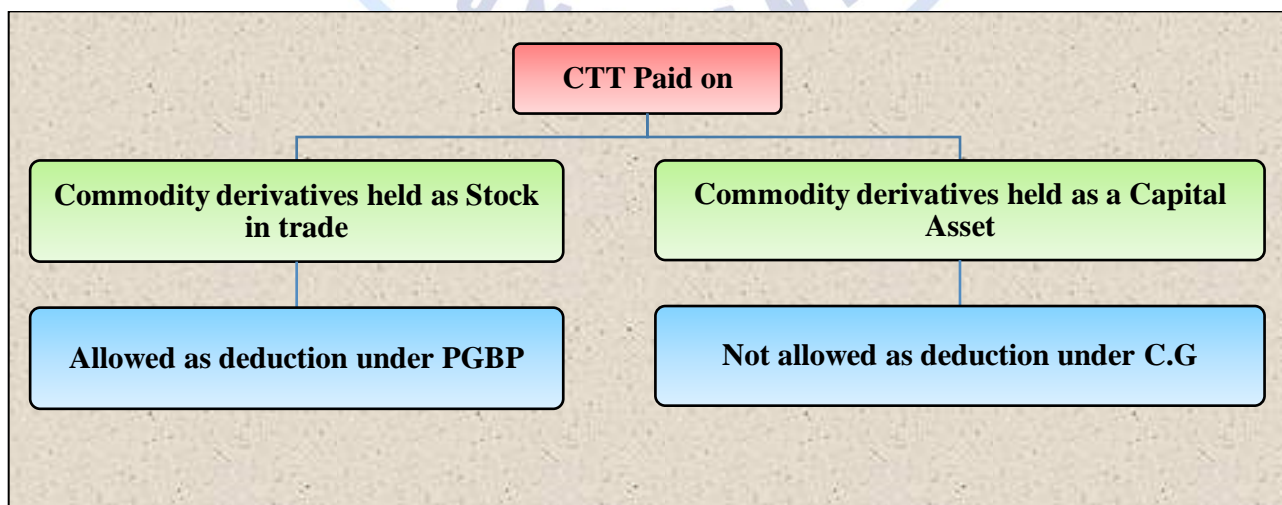
Sec 36(1)(ix): DEDUCTION OF FAMILY PLANNING EXPENSE

- Family planning expense is **allowed** as deduction only to **company** assessee (not allowed to an individual)
- Any bona fide expense incurred by a company for promotion of family planning among its employees is allowed as deduction.
- If the above expense is capital in nature, it will be allowed as deduction over a period of 5 years in 5 equal instalments starting from the previous year in which it is incurred.
- Unabsorbed family planning expense shall be set-off and carried forward just like unabsorbed depreciation

Sec 36(1)(xv): DEDUCTION OF SECURITIES TRANSACTION TAX PAID



Sec 36(1)(xv): DEDUCTION OF COMMODITIES TRANSACTION TAX PAID



Section 37: GENERAL DEDUCTION:

It is a residuary section. To claim deduction under this section, following conditions are to be satisfied:

- a) Expense should not be covered u/s 30 to 36 and
- b) Expense should be incurred after the business was setup and
- c) Expense should not be in the nature of capital expenditure and
- d) Expense should not be personal expense of the assessee and
- e) Expense should have been incurred in the previous year and
- f) Expense should be in respect of business carried by the assessee and
- g) Expense should have spent wholly and exclusively for the purpose of business and
- h) Expense should not have been incurred for any purpose which is an offence or is prohibited by any law (Penalty)

Explanation 1 to section 37(1) - This *Explanation* provides that any expenditure incurred by the assessee for any purpose which is an offence, or which is prohibited by law shall not be allowed as a deduction.

Exception: Penalty paid in the nature of compensation is allowed as deduction.

Eg: Interest on late payment of GST.

Explanation 2 to Section 37(1): Disallowance of CSR expenditure

- It has been clarified that for the purposes of section 37(1), any CSR expenditure incurred by an assessee in accordance with provisions of 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.
- The rationale behind the disallowance is that CSR expenditure, being an application of income, is not incurred wholly and exclusively for the purposes of carrying on business.

SEC.37(2B): Expenditure incurred by an assessee on advertisement in any souvenir, pamphlet or the like published by a political party (*whether it is registered with election commission of India or not*) will not be allowed as deduction.

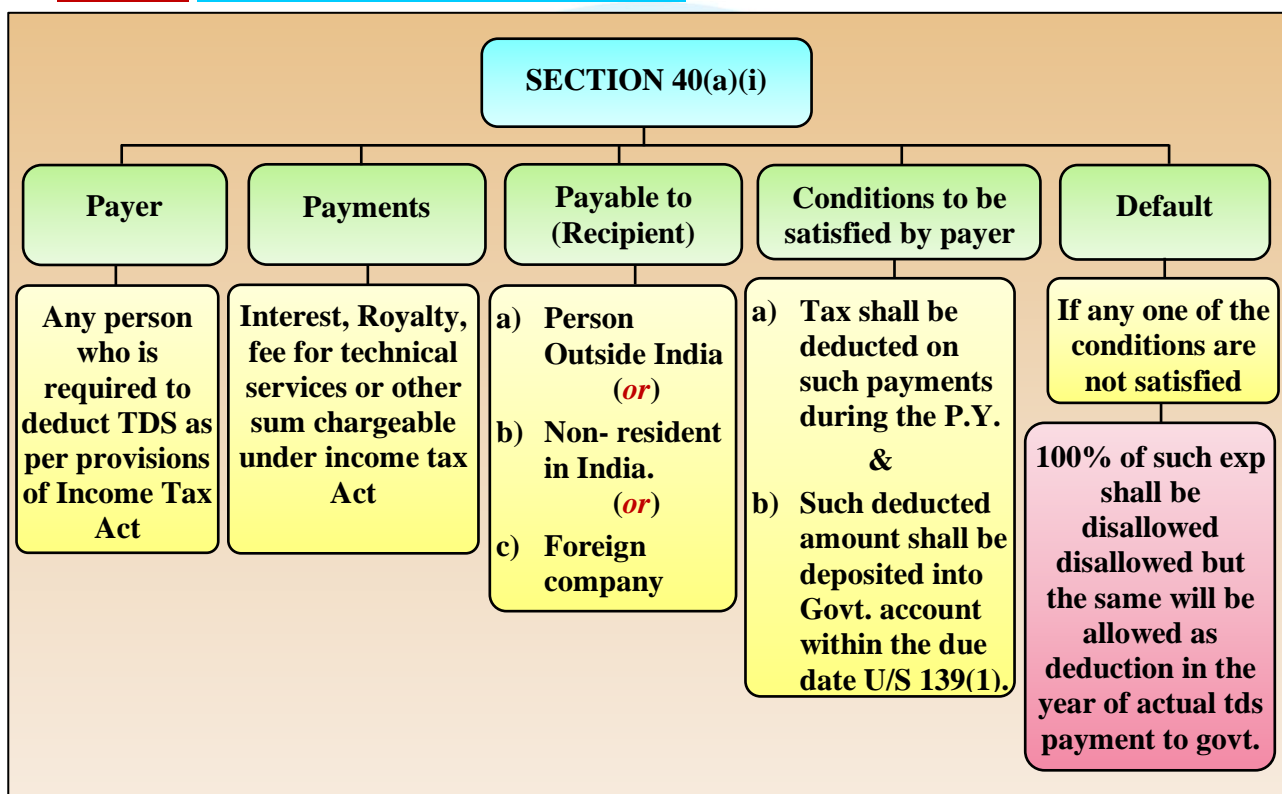
Important Points for Consideration:

- Expenses incurred for a bypass surgery by a lawyer. It is not an allowable expenditure since primary objective - Personal survival i.e., to live.
- Plastic surgery expenses for a TV/News reader allowable as a revenue expenses.
- Subscription to Gym by an actress allowable as revenue expense.
- Expenditure on electricity, telephone and postage will be allowed as expenditure.
- Expenditure incurred by the employer on training of apprentices allowable as expense.
- Audit fees paid is allowed as expenditure.
- Entertainment expenses incurred allowable as expense.
- Expenditure on temple in factory for recreating of employees allowable as expense.
- Royalty paid by the assessee for use of another's trademark allowable as expense.

- Legal expenses to defend or maintain the title to an asset of the assessee's business are allowable.
- Legal and court expenditure spent for income-tax/sales tax appeals are allowable.
- Legal expenses for making agreements, various deeds, etc are allowed.
- Expenses incurred on Diwali, New Year etc. are allowed.
- Compensation paid to an employee for injury during duty is allowed.
- Expenditure incurred on employees' welfare is allowed.
- Expenses incurred on issue of shares/debentures are not allowed.

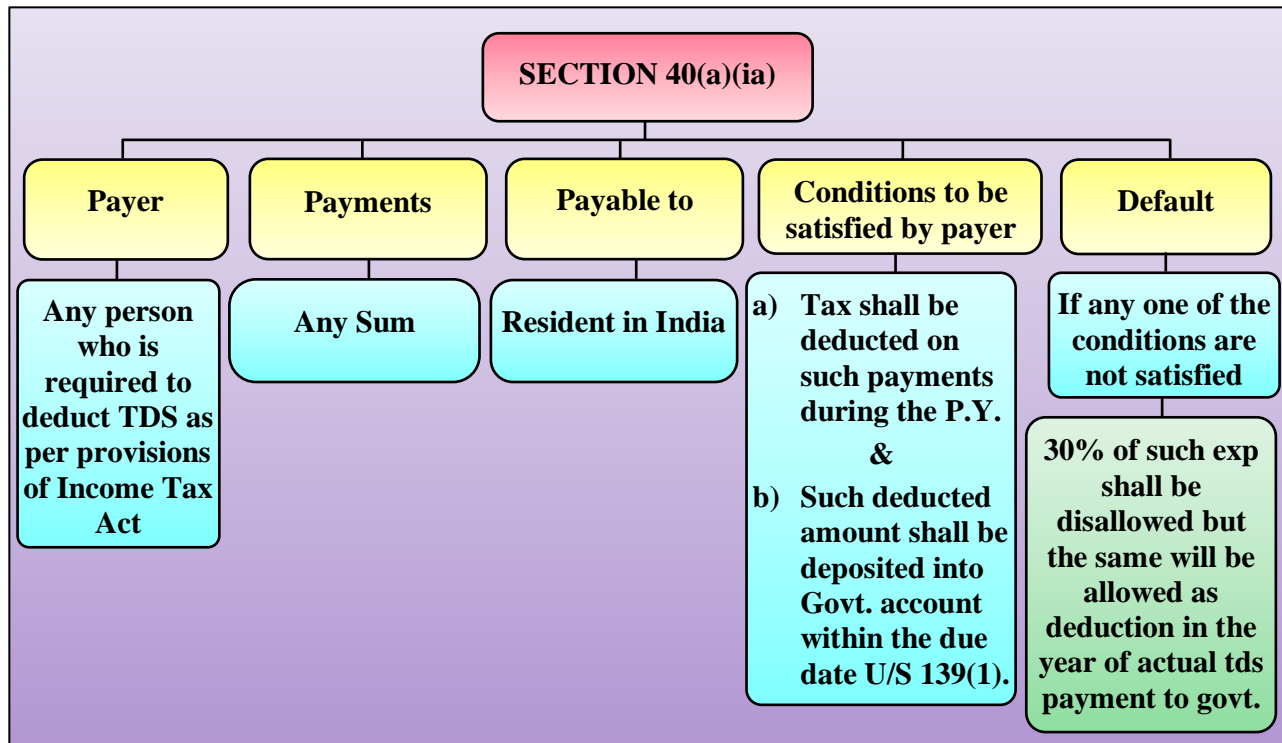
EXPENSES NOT DEDUCTIBLE UNDER THE HEAD PGBP

A. SEC.40 – INADMISSIBLE DEDUCTIONS:



STUDENT NOTES:

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In case, assessee fails to deduct the whole or any part of tax on any such sum but is not deemed as assessee in default under the first proviso to section 201(1) by reason that such payee –

- a) has furnished his return of income under section 139;
- b) has taken into account such sum for computing income in such return of income; and
- c) has paid the tax due on the income declared by him in such return of income, and
- d) the payer furnishes a certificate to this effect from an accountant in such form as may be prescribed,
- e) it would be deemed that the assessee has deducted and paid the tax on such sum.

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 payee

Section 40(b): Assessment of P.F including LLP

Interest on partner's capital and remuneration to partners is allowed as deduction subject to following conditions u/s 40b

- a) Interest on partner's capital and remuneration to partners should be authorized by and consistent with the partnership deed
- b) Remuneration to a working partner or interest to a partner authorized by deed but relates to an earlier period is not allowed as deduction (i.e, allowed as deduction prospectively)
- c)
 - i) Interest paid to both working and sleeping partner are allowed as deduction
 - ii) Only remuneration paid to working partner is allowed as deduction
- d)
 - i) Maximum interest on partners capital allowed as deduction is 12% simple interest
 - ii) Any remuneration to a working partner in excess of below limits is not allowed as deduction

| Book Profit | Quantum of deduction |
|---|--|
| On the first Rs. 6 lakh of book profit or in case of loss | Rs.3,00,000 or 90% of book profit, whichever is higher |
| On the balance of book profit | 60% of book profit |

Book Profit = Net Profit before remuneration and after PGBP adjustments

| FORMAT FOR COMPUTING BOOK PROFITS: | |
|---|------|
| Net Profit as per accounts | XXX |
| Add: Remuneration (if it is already debited to P&L A/c) | XXX |
| Net Profit before remuneration as per accounts | XXX |
| Add/(less): PGBP Adjustments | (XX) |
| Net Profit before remuneration and after PGBP adjustments (Book Profit) | XXX |

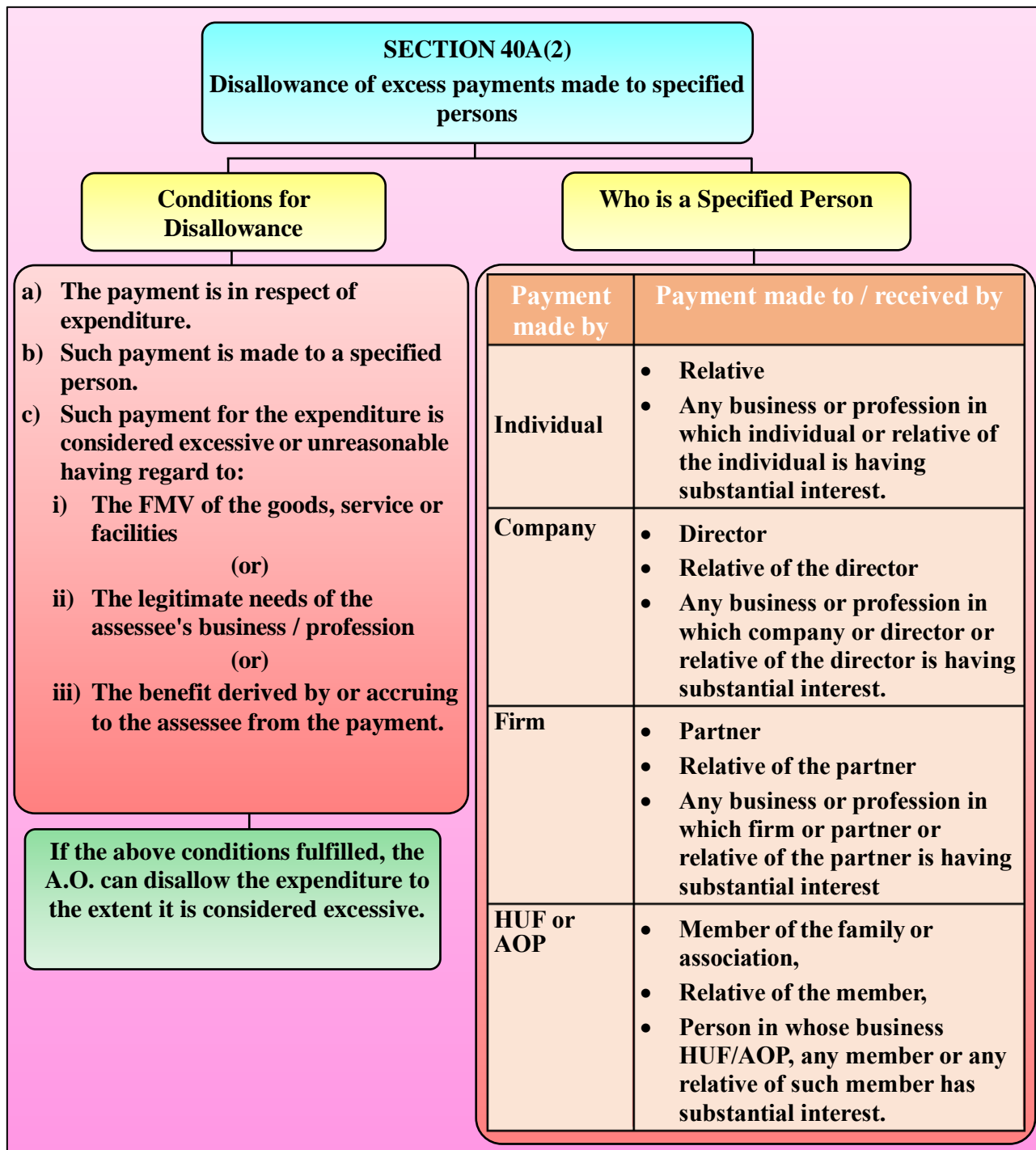
Taxability in hands of partners:

- Interest received by a partner from a partnership firm is taxable to the partner under the head PGBP only to the Extent of amount allowed as deduction to Partnership firm
- Salary/ remuneration/ bonus/ commission received by a partner from a partnership firm is taxable to the partner under the head PGBP only to the Extent of amount allowed as deduction to Partnership firm
- Share of Profit received by a partner from a partnership is exempt in the hands of partner

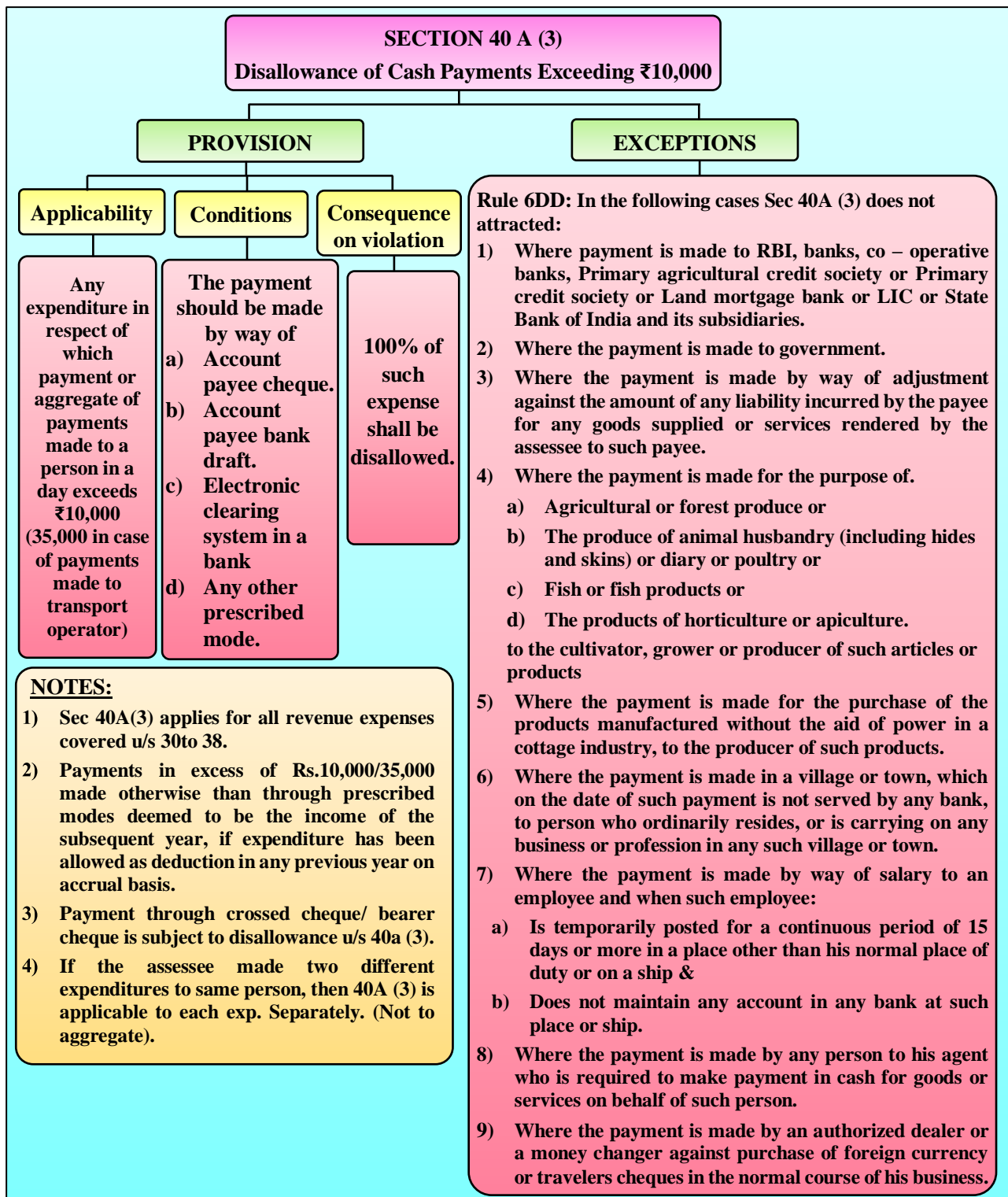
STUDENT NOTES:

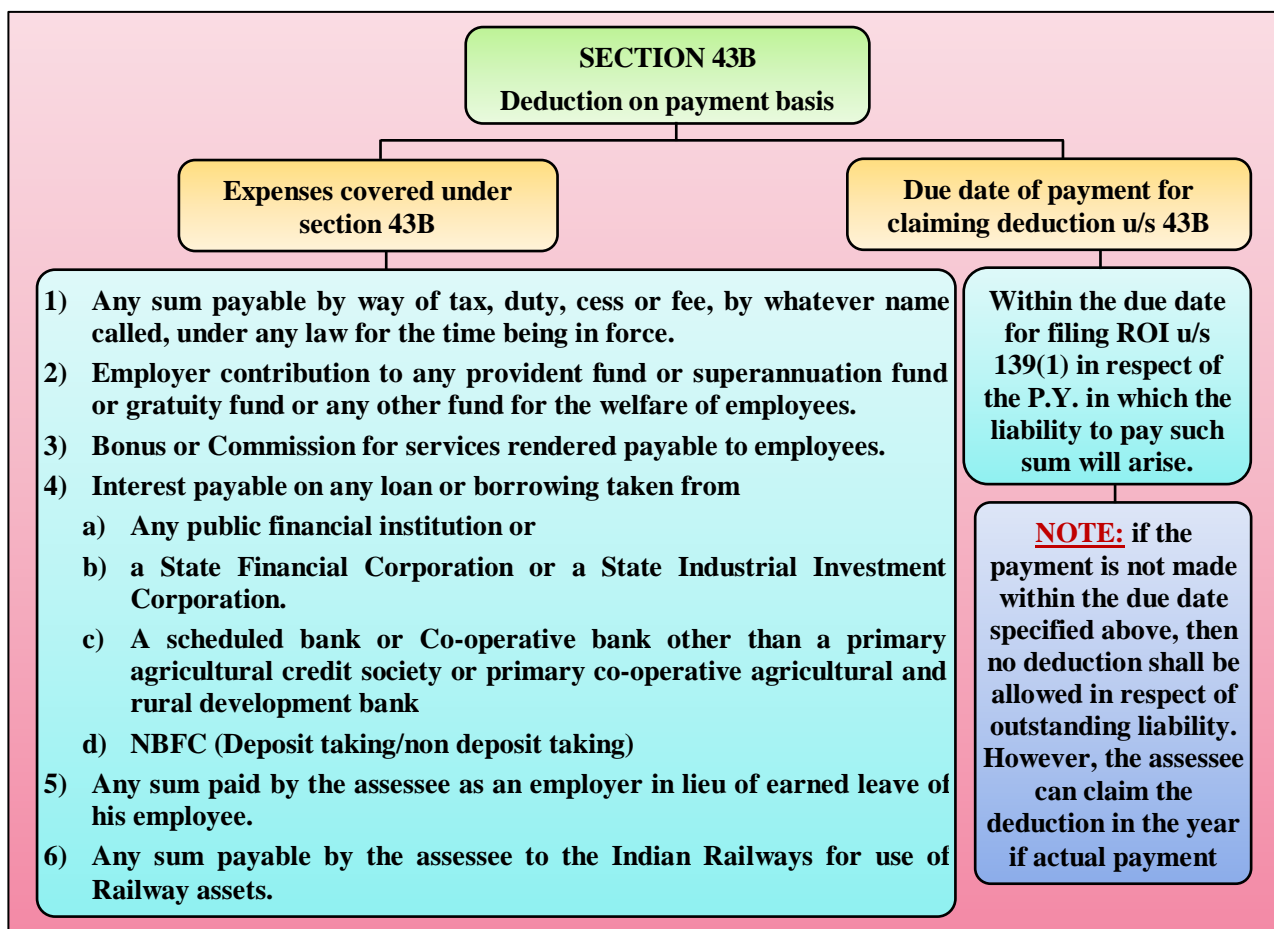
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B. Sec.40A(2)–EXCESS PAYMENTS OR UNREASONABLE PAYMENTS MADE TO SPECIFIED PERSONS IS NOT ALLOWED AS DEDUCTION



- In case of an individual, relative means: spouse, brother, sister, any lineal ascendant or descendant.
- Substantial Interest means-
 - In case of a Company - $\geq 20\%$ beneficial owner of shares in the company
 - In case of other persons - $\geq 20\%$ profit share in the business

C. **Sec.40A(3) – DISALLOWANCE OF CASH PAYMENTS EXCEEDING ₹ 10,000:**

D. Sec.43B – DEDUCTION ON PAYMENT BASIS:**NOTES:**

1) **Sec 43B(h):** Any sum payable by the assessee to a micro or small enterprise beyond the time-limit specified in section 15 of MSME Act 2006 would be allowed as deduction only on payment basis

- Sec 43B(h) applies when goods are purchased on a credit basis from supplier of goods or services, being a Micro or Small Enterprise.
-

| Manufacturing enterprises and enterprises rendering services | | | |
|--|---|-----|-------------------------|
| (1) | Micro Enterprise | | |
| | Investment in Plant and Machinery or Equipment ≤ Rs.1 crore | AND | Turnover ≤ Rs. 5 crore |
| (2) | Small Enterprise | | |
| | Investment in Plant and Machinery or Equipment ≤ Rs. 10 crore | AND | Turnover ≤ Rs. 50 crore |

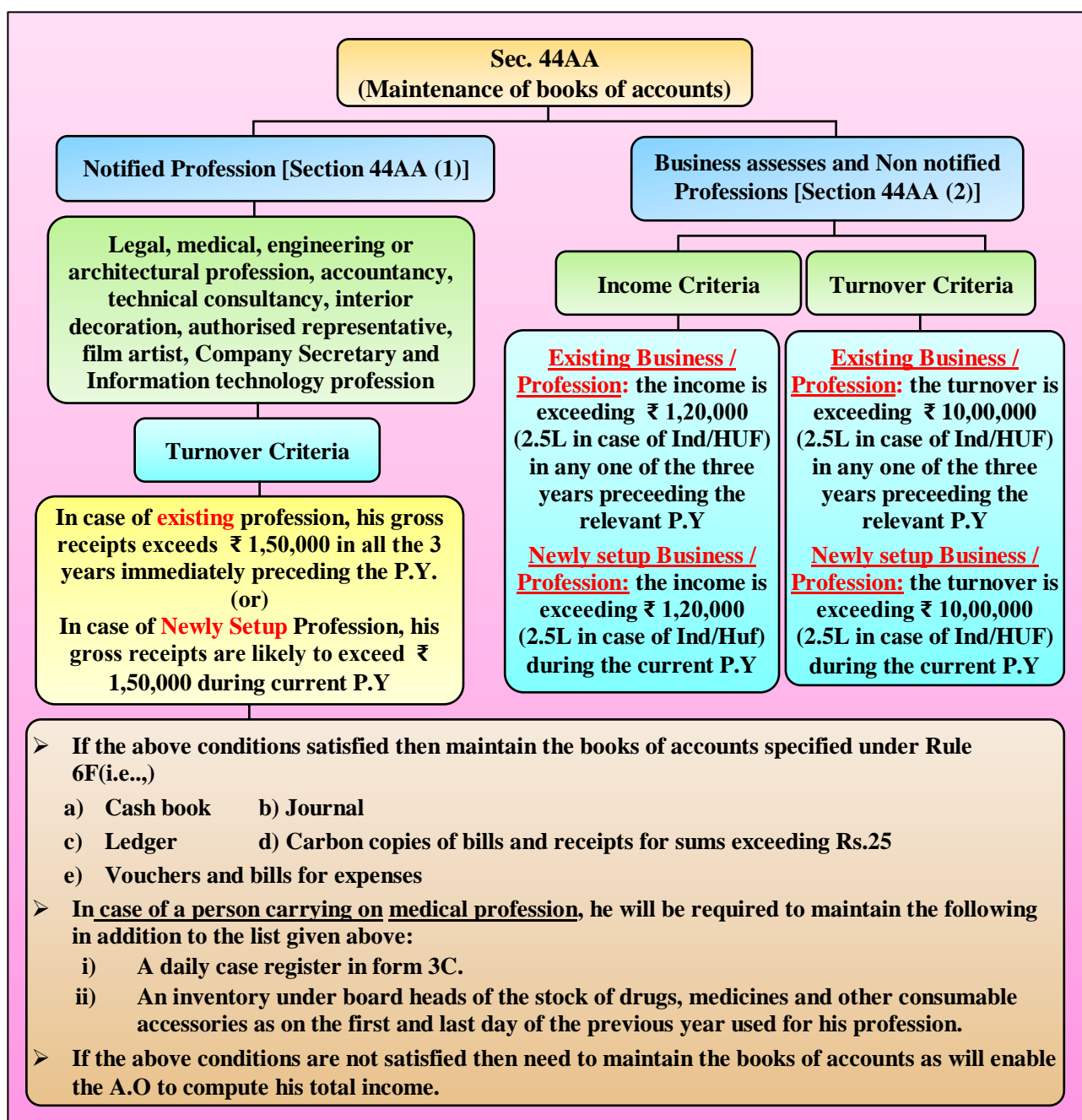
- As per Sec 15 of MSME Act, 2006, payment to supplier being a micro or small enterprise should be made as per below timelines:

| | Due date for Payment |
|--|---|
| If there is agreement between supplier and buyer | Credit period agreed (or) 45 days, whichever is earlier |

| | |
|--|---|
| If there is agreement between supplier and buyer | With in 15 days from date of acceptance |
|--|---|

- As per Sec 43B(h):
 - If above payment is made with in the due date -- Deduction allowed on accrual basis
 - If above payment is made after the due date – Deduction allowed on payment basis
- Where the interest on the loan is converted into a loan, interest so converted will not be treated as having been actually paid, and accordingly, will not be allowed as a deduction. The P.Y in which the interest amount characterised as loan is paid, then it is allowed as deduction

A. Sec. 44AA – MAINTENANCE OF BOOKS OF ACCOUNTS:



Place at which books to be kept and maintained:

- The books and documents shall be kept and maintained at the place where the person is carrying on the business or profession
- where there is more than one place, at the principal place of his business or profession
- If he maintains separate set of books for each place of his profession, such books and documents may be kept and maintained at the respective places

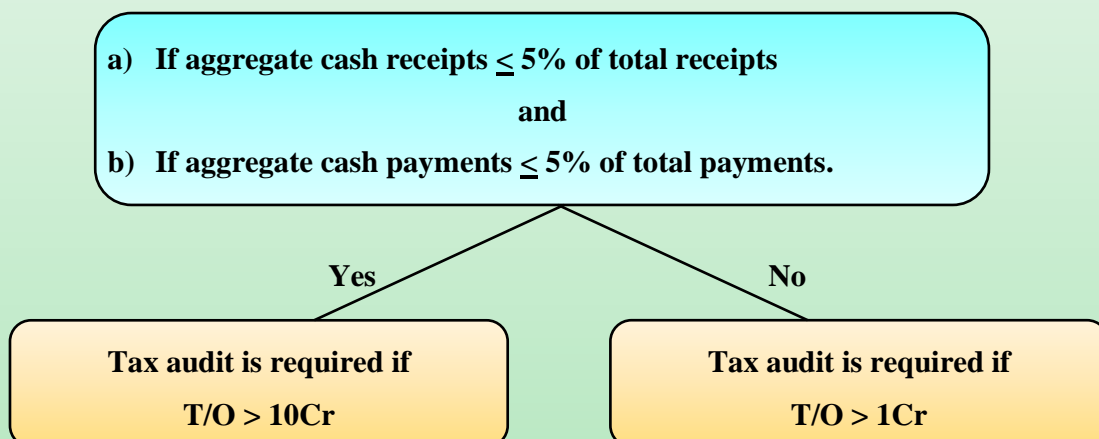
Period for which the books of accounts are to be maintained:

- The above books of account and documents shall be kept and maintained for a minimum of 6 years from the end of the relevant assessment year.

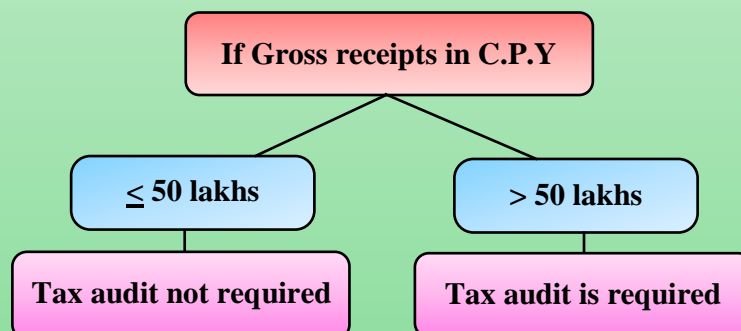
If a person fails to keep and maintain any such books of account and other documents as required by section 44AA in respect of any previous year, penalty of Rs. 25,000 would be leviable under section 271A.

B. Sec 44AB: AUDIT OF ACCOUNTS OF CERTAIN PERSONS CARRYING ON BUSINESS OR PROFESSION

i. For Business Assessee:



ii. For assessee carrying on Profession:



- For those assessee, who are paying taxes u/s 44AD, 44ADA and 44AE, tax audit provisions are discussed in particular sections

- **Due date:** Tax audit report [Form 3CA and 3CD (or) Form 3CB and 3CD] is required to be furnished one month prior to the due date for filing return of income u/s 139(1) i.e, due date is 30th September of A.Y
- **Penalty:** If any person fails to get his accounts audited in respect of any previous year or furnish the audit report by the specified date, penalty of 0.5% of turnover or 1,50,000, whichever is lower will be levied u/s 271B
- **Accounts audited under other statutes are considered:** if a person gets his accounts audited under any other law before the ITR due date, then he shall furnish audit report in form 3CA and 3CD in addition to the report of audit under such other law.

C. **SEC.44AD, 44ADA AND 44AE – PRESUMPTIVE TAXATION PROVISIONS**

| | Section 44AD | Section 44ADA | Section 44AE |
|--------------------------------------|--|---|--|
| Eligible assessee | a) Resident individual b) Resident HUF c) Resident Partnership Firm (but not a LLP) who has not claimed deduction u/s 10AA | a) Resident individual b) Resident Firm (but not a LLP) | Any assesses |
| Eligible Business/ Profession | Any business / profession other than- a) A Person earning income in nature of commission or brokerage b) Notified professional c) Person carrying on any agency business d) Person engaged in Business of plying, hiring or leasing goods carriages | Notified profession under Sec. 44AA(1) | Person engaged in the business of Plying, hiring or leasing goods carriers |
| Turnover limit/vehicles limit | Turnover / Gross receipts shall not exceed ₹2 crores in relevant P.Y NOTE: If aggregate cash receipts in the CPY ≤ 5% of total turnover or gross receipts, then up to 3 crores, assessee can avail benefit of 44AD For above purpose, receipt of amount by a cheque which is not account payee, would be deemed to be receipt in cash. | Gross receipts should not exceed ₹50,00,000 in relevant P.Y. NOTE: If aggregate cash receipts in the CPY ≤ 5% of total turnover or gross receipts, then up to 75 lakhs, assessee can avail benefit of 44ADA For above purpose, receipt of amount by a cheque which is not account payee, would be deemed to be receipt in cash. | The eligible person shall not own more than 10 vehicles at any time during the previous year. NOTE: If vehicle is purchased on hire purchase basis, then assessee shall be deemed to be the owner of the vehicle |

| | | | |
|--|--|---|---|
| Presumptive income | <ul style="list-style-type: none"> 8 % of the gross turnover or gross receipts 6% of the gross receipts, if gross receipts are received by way of bank transaction during the P.Y. or before due date of filing of return u/s 139(1) in respect of that P.Y | 50% of the gross Receipts of such profession, or such higher sum declared by the assessee | <p><u>Heavy goods vehicle:</u> ₹1,000 per ton of gross vehicle weight, per vehicle for every month or part of a month</p> <p><u>Other than heavy goods vehicle:</u> 7500 per vehicle for every month or part of the month</p> <p><u>NOTE:</u></p> <ol style="list-style-type: none"> <u>Heavy goods vehicle mean</u> - Any goods carriage, the gross vehicle weight of which exceeds 12,000 kilograms Presumptive income is to be calculated from month of purchase irrespective of date of usage |
| Deduction of expenses u/s 30 to 38 | Not deductible including salary and interest paid to partners by P.F | Not deductible including salary and interest paid to partners by P.F | Not deductible except Interest and remuneration paid by P. Firm to its partners |
| Requirement of maintenance of books of account u/s 44AA and audit u/s 44AB | <p>if assessee declared presumptive income u/s 44AD in any financial year, then he is required to declare presumptive income for subsequent 5 years.</p> <p>In case of violation,</p> <ul style="list-style-type: none"> <u>Sec.44AD(4):</u> then he is not eligible to choose presumptive provision for subsequent 5 years after the year of default <u>Sec.44AD(5):</u> Assessee covered u/s.44 AD (4) is required to maintain books of accounts u/s 44AA(2) and get his accounts audited u/s 44AB, if his total income exceeds basic exemption limit. | <p>If eligible assessee declared presumptive income as per 44ADA, he is not required to maintain books of account u/s 44AA or get them audited u/s 44AB.</p> <p>However, if the assessee declares his profits to be lower than presumptive profits u/s 44ADA, then he has to maintain books of account u/s 44AA(1) and get his accounts audited u/s 44AB, if his total income > basic exemption limit for that year.</p> | <p>If eligible assessee declared presumptive income as per 44AE, he is not required to maintain books of account u/s 44AA or get them audited u/s 44AB.</p> <p>However, if the assessee declares his profits to be lower than presumptive profits u/s 44AE, then he has to maintain books of account u/s 44AA(2) and get his accounts audited u/s 44AB</p> |

| | | | |
|-------------------------------|--|---|---|
| Advance tax obligation | The eligible assessee opting for section 44AD is required to pay advance tax by 15th March of the financial year (F.Y.). | The eligible assessee opting for section 44ADA is required to pay advance tax by 15th March of the F.Y. | The eligible assessee has to pay advance tax in four installments |
|-------------------------------|--|---|---|

NOTE: COMMON POINTS FOR SEC.44AD, 44ADA, 44AE:

- The Assessee can declare higher income than the presumptive income at his option.
- Deductions under Chapter VI A (sec.80C to 80U) are deductible from presumptive income and losses can be set off against presumptive income.



7. Sec 32: DEPRECIATION

- As per accounts, depreciation is calculated for each asset separately. Under Income Tax, depreciation shall be calculated **block wise** (except power sector undertakings)
- **Block:** Group of assets falling under “Same Class” and having “Same rate of depreciation” are classified as block.
- Depreciation method followed under Income Tax is “WDV” method (except power sector undertakings)

CONDITIONS FOR ALLOWANCE OF DEPRECIATION:

- a) Assessee shall be the owner of the asset (wholly or partly) **and**

Exceptions:

- Capital expense on leased asset
- Co-ownership (to the extent of his share)
- Asset acquired under hire purchase
- Purchase covered under Sec 53A of TOPA (even if it is not registered)

- b) Asset shall be used (actively or passively) for the purpose of business during relevant P.Y

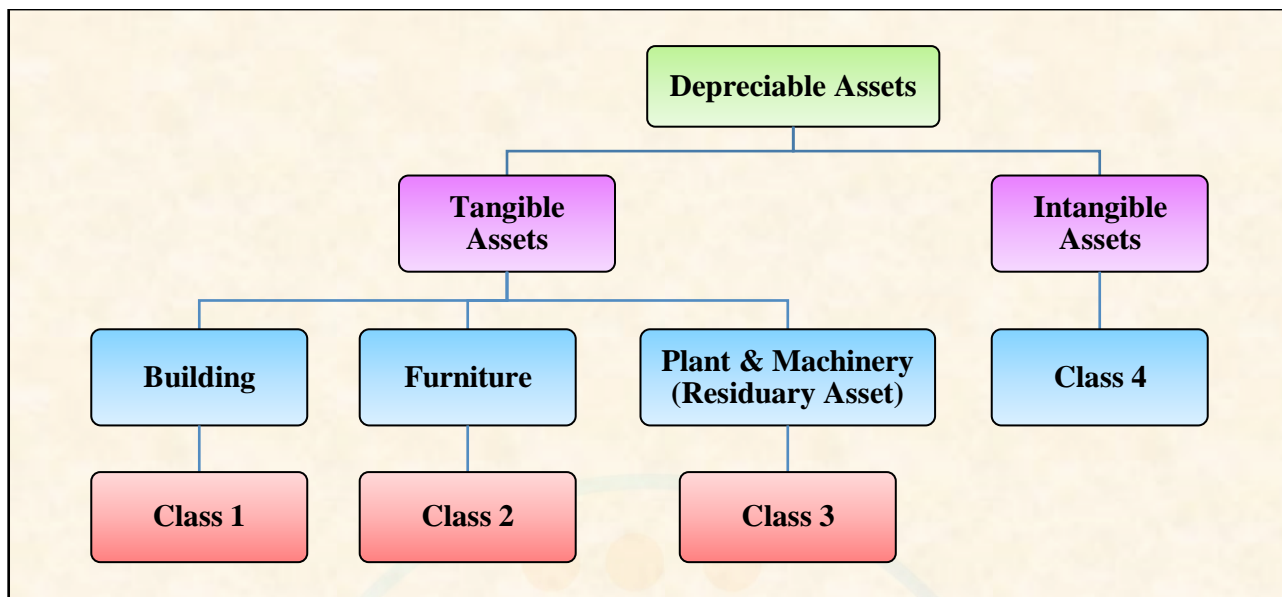
NOTE:

- Passive usage means asset is kept “ready for use”. Eg: Generators, Fire Extinguishers
- Depreciation is charged not from date of acquisition, but from the date of “Put to use”
- No depreciation on land

REDUCED DEPRECIATION:

- Amount of depreciation is not proportionate to the period of use during the previous year.
- In the First year
 - If asset is not put to use – No depreciation
 - If asset is put to use for ≥ 180 days – 100% depreciation is allowed.
 - If asset is put to use for < 180 days – 50% depreciation is allowed.
- From subsequent year onwards, even if asset is used (actively or passively) for a few days or even few hours during relevant P.Y, depreciation for entire year is available.
- If any asset is not put to use in first year but put to use in second year for less than 180 days, still 100% depreciation is available for second year.

STUDENT NOTES:

CLASSIFICATION OF DEPRECIABLE ASSETS:**RATES OF DEPRECIATION:**

| Class | ASSETS | BLOCK | RATES |
|-------|-------------------------------|---|---|
| 1) | BUILDINGS | Building used for a) Mainly for residential purpose (except hotels) b) Commercial purpose c) Purely temporary erections | 5% 10% 40% |
| 2) | FURNITURE AND FITTINGS | Furniture and fittings including electrical fittings such as electrical wiring, switches, sockets | 10% |
| 3) | PLANT AND MACHINERY | a) Vehicles: Motor cars, other than those used in a business of running them on hire acquired and put to use on/ after 01.04.1990. b) Vehicles: Motor buses, Motor Lorries and Motor taxis used in a business of running them on hire. c) Aero plane & Aero engines d) Moulds used in rubber and plastic goods factories. e) Lifesaving medical equipment. f) Containers made of glass or plastic used as re-fills g) Computers including computer software, laptop h) Air & Water pollution control equipment, solid waste control equipment and solid waste recycling and resource recovery systems. i) Energy saving devices including renewable energy saving devices. E- vehicles (battery powered or fuel-cell powered) j) Any Books k) Ships & Vessels, Speed boats operating on inland waters l) Other plant and machinery | 15% 30% 40% 30% 40% 40% 40% 40% 40% 20% 15% |

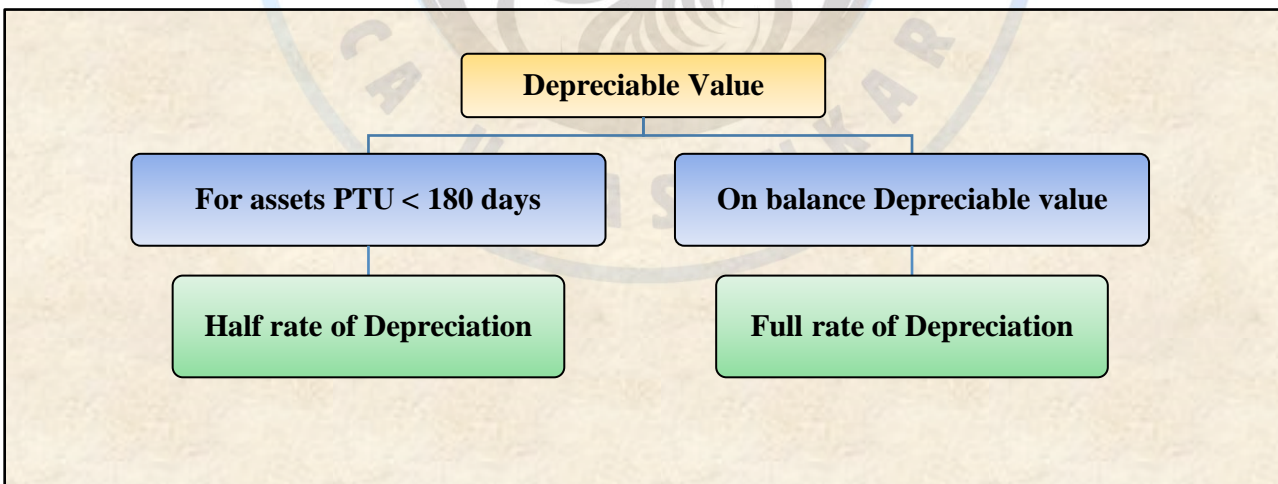
7. DEPRECIATION

| | | | |
|----|-------------------------|--|-----|
| | | m) Oil wells | 40% |
| | | n) Windmills etc., | |
| | | • Windmills and any specifically designed devices which runs on windmills installed on or after 01.04.2014 | 40% |
| | | • If the above asset was installed before 01.04.2014 | 15% |
| 4) | INTAGIBLE ASSETS | Know how, Patents, Copy Rights, Trademarks, Licenses, franchises etc., | 25% |

Computation of WDV of block:

| Particulars | Amount (Rs.) |
|--|--------------|
| Opening WDV of block | xxx |
| Add: Additions | |
| Actual cost of asset acquired during P.Y | |
| a) PTU \geq 180 days | xxx |
| b) PTU < 180 days | xxx |
| | xxx |
| Less: Money receivable in respect of assets sold, demolished, discarded & destroyed [Not FMV or SDV] (Actual Sale Value or Insurance Compensation) | (xxx) |
| Depreciable Value (amount on which depreciation is calculated) | xxx |
| Less: Current Year Depreciation | (xx) |
| Less: Additional Depreciation | |
| Closing WDV of the block | xxx |

Apportionment of Depreciable Value for calculating Current year depreciation:



QUESTION: Umasankar & Co., a sole proprietorship owns six machines, put in use for business in March, 2024. The depreciation on these machines is charged @ 15%. The opening balance of these machines as on 01-04-2024 was ₹8,50,000. Three of the old machines were sold on 10th June, 2024 for ₹4,00,000. A secondhand plant was bought for ₹8,50,000 on 30th November 2024.

You are required to:

- Determine the claim of depreciation for Assessment Year 2025-26
- In above case, if sale value is Rs. 11,00,000, calculate amount of depreciation

ANSWER: Will be discussed in lecture

ADDITIONAL DEPRECIATION:

Eligible assessee: Manufacture of article or thing (or) Generation or transmission or distribution of power

Eligible asset: New Plant & Machinery (other than ships & aircrafts)

Quantum of deduction:

| In the year of acquisition (PY 24-25) | PY 24-25 | Immediately succeeding previous year PY 25-26 |
|--|-------------------------------|---|
| • If new P&M is put to use for \geq 180 days | 20% of actual cost of new P&M | - |
| • If new P&M is put to use for < 180 days | 10% of actual cost of new P&M | 10% of actual cost of new P&M |

NOTE:

- For Individual/HUF/AOP/BOI/AJP (except co-operative society), additional depreciation is not available if they are paying taxes under default tax rates
- For Company and Co-operative society, additional depreciation is not available if they're paying taxes under u/s 115BAA/115BAB/115BAD/ 115BAE
- Additional depreciation is not available for
 - Second-hand P&M (whether purchased in India or outside India)
 - Any P&M installed in office premises or residential accommodation or any guest house
 - Office appliances or road transport vehicles
 - P&M on which 100% deduction is allowed
- If power generation undertakings opt for depreciation under SLM, additional depreciation is not allowed
- Printing or printing and publishing treated as manufacturing business for claiming additional depreciation
- Additional depreciation shall be computed on individual asset basis and not on block of assets
- Additional depreciation is not available if the new plant is sold in the year of acquisition

QUESTION: Mr. Kunal, a proprietor, engaged in the business of generation of power, furnishes the following particulars pertaining to P.Y. 2024-25. Compute the depreciation allowable under section 32 for A.Y. 2025- 26, while computing his income under the head "Profits and gains of business or profession". The proprietor has opted for the depreciation allowance on the basis of written down value. assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

| Particulars | | (₹) |
|-------------|---|----------|
| a) | Opening written down value of plant and machinery (15% block) as on 01-04-2024 (purchase value ₹8,00,000) | 5,78,000 |

| | | |
|----|---|----------|
| b) | Purchase of second- hand machinery (15% block) on 29-12-2024 for business purpose | 2,00,000 |
| c) | Machinery Y (15% block) purchased and installed on 12-07-2024 for the purpose of power generation. | 8,00,000 |
| d) | Acquired installed for used a new air pollution control equipment on 31-07-2024 | 2,50,000 |
| e) | New air conditioner purchased and installed in office premises on 08-09-2024 | 3,00,000 |
| f) | New machinery Z (15% block) acquired and installed on 23-11-2024 for the purpose of generation of power | 3,25,000 |
| g) | Sale value of an old machinery X, sold during the year (purchase value ₹4,80,000, WDV as on 01-04-2023 ₹3,46,800) | 3,10,000 |

ANSWER: Will be discussed in lecture

Sec 43(1): Actual Cost

| Particulars | Amount |
|--|------------|
| Purchase Price | xxx |
| <u>Add:</u> | |
| • Taxes & Duties Paid (If ITC is not available) | xx |
| • Loading / Unloading charges | xx |
| • Insurance | xx |
| • Transportation charges | xx |
| • Installation charges | xx |
| • Int on borrowed capital till asset is put to use | xx |
| • Trial run expenses | xx |
| <u>Less:</u> | |
| • Subsidies/ Grants recd from govt | (xx) |
| • Cost met by any other person | (xx) |
| • Amount | (xx) |
| Actual Cost | xxx |

NOTE: With regard to acquisition of any asset, if any payment (including amount paid to GTA) exceeds Rs. 10,000/-, such expense should be paid by way of

- A/c payee cheque (or)
- A/c payee bank draft (or)
- Electronic clearing system (or)
- Any other electronic mode

Otherwise, such expense shall not form part of actual cost of asset

Actual cost in certain special situations [Explanations to section 43(1)]

| Situation | Actual Cost |
|--|--|
| 1. Asset used in regular business after it ceases to be used for scientific research | Nil (as already 100% deduction was claimed u/s 35) |
| 2. On conversion of SIT into Capital asset used in business | FMV of SIT on the date of conversion |
| 3. Where any asset is acquired by way of gift/ inheritance | WDV to previous owner |

| | |
|---|--|
| 4. Capital asset transferred from Holding company to 100% Subsidiary company | WDV to Holding company |
| 5. Capital asset transferred from 100% Subsidiary company to holding company | WDV to Subsidiary company |
| 6. Transfer of capital assets from amalgamating to amalgamated company | WDV of amalgamating company |
| 7. Transfer of capital assets from demerged to resulting company | WDV of demerged company |
| 8. Asset used for business transferred earlier and re-acquisition of the same | a) WDV at time of original transfer (or) b) Re-acquisition price |
| 9. Acquisition of asset to claim enhanced depreciation, in the opinion of A.O | Cost determined by A.O, with prior approval of Joint Commissioner (Generally, FMV will be considered by A.O) |
| 10. Sale of an asset to lessor and leasing back the same | In books of lessor- Actual cost = WDV in books of lessee |
| 11. Building previously used for private purpose now brought into business | Cost of acquisition/ construction – Notional depreciation from date of its acquisition |
| 12. Asset brought into India by a Non-resident | Actual COA – Notional depreciation from date of its acquisition |
| 13. Any asset for which deduction u/s 35AD is allowed | Nil |

NOTE:

- **Composite Subsidy:** When subsidy received for more than one asset combinedly, then proportionate amount calculated by considering all assets shall be excluded
- **Other Subsidies:** If subsidy not directly related to purchase of assets, such amount shall not be deducted from cost of asset but included in the income of assessee.
- Explanation 5 to section 43(1) regarding building which is initially acquired for personal use and later brought into business use is not applicable in respect of other assets

Capital Gains in case of depreciable capital assets:

- Depreciation will be reduced from block only if –
 - There are assets in the block (and)
 - Block is having positive value
- If there are no assets in the block (or) block is having negative value, then we will calculate capital gains. (WDV of the block will be made as Nil)
- Depreciable capital assets are always treated as short term capital assets. So, STCG (or) STCL will arise.

| Are there assets in the block? | Whether block is having positive value? | Whether depreciation will be reduced from block u/s 32? | Whether Capital gains arise u/s 50? |
|--------------------------------|---|---|-------------------------------------|
| Yes | Yes | ✓ | X |
| Yes | No | X | ✓ |

7. DEPRECIATION

| | | | |
|----|-----|---|---|
| No | Yes | X | ✓ |
| No | No | X | ✓ |

NOTE: Above table with examples will be explained clearly in the lecture

Apportionment of Depreciation:

In the following cases, depreciation shall be apportioned between predecessor and successor in the ratio of **number of days for which assets were used by them-**

- Amalgamation of companies
- De-merger of companies
- Conversion of sole proprietary concern into Company
- Conversion of Private limited company into LLP
- Succession of business otherwise than on death

Unabsorbed Depreciation:

- 1) Unabsorbed depreciation exists in following cases-
 - If there are no profits in business to set-off depreciation (or)
 - Existing profits are not sufficient to set-off depreciation
- 2) Unabsorbed depreciation in CPY is eligible for intra head set-off as well as inter-head set-off except salary income
- 3) After adjusting in step 2, still if there is unabsorbed depreciation, it will be carried forward to subsequent years
- 4) Order of priority to set-off unabsorbed depreciation in subsequent years
 - i. Current year depreciation
 - ii. Brought forward business loss
 - iii. Unabsorbed depreciation
- 5) Even in subsequent years, unabsorbed depreciation is eligible for inter head set-off except salary
- 6) Unabsorbed depreciation can be carried forward for unlimited period
- 7) Continuity of business is not relevant for set-off and carry forward of unabsorbed depreciation

QUESTION:

Hanif Pvt. Ltd. is converted into Hanif LLP on 01.01.2025. The following particulars are available to you:

| S. No. | Particulars | Amount (₹) |
|--------|--|------------|
| a) | Cost of land | 5,00,000 |
| b) | WDV of machinery as on 01.04.2024 | 3,30,000 |
| c) | Patents acquired on 01.06.2024 | 3,00,000 |
| d) | Above building revalued as of conversion was into on the date LLP as | 12,00,000 |

Though the conversion into LLP took place on 01.01.2025, there was disruption of business and the assets were put into use by the LLP only from 1st March, 2025 onwards.

SOLUTION: Tax treatment of depreciation and unabsorbed business loss of a private company on its conversion into an LLP:

Depreciation: Depreciation has to be first calculated as if the conversion had not taken place and then apportioned between the company and the LLP.

| | | Amt. (₹) | | Amt. (₹) |
|----------|-----------|----------|-----|----------|
| Block I | Machinery | 3,30,000 | 15% | 49,500 |
| Block II | Patents | 3,00,000 | 25% | 75,000 |
| | | | | 1,24,500 |

Allocation of depreciation: Depreciation on machinery and patents have to be apportioned between the company and the LLP in the ratio of the number of days for which the assets were used by them. Since patents were acquired only on 01.06.2024, it could have been used by the company for 214 days only. Therefore, the depreciation on assets has to be allocated between the company and LLP as follows.

| Asset | Total depreciation for the year | Company | | LLP | |
|-----------|---------------------------------|----------------------|--------------|----------------------|--------------|
| | | No. of days of usage | Depreciation | No. of days of usage | Depreciation |
| Machinery | 49,500 | 275 | 44,485 | 31 | 5,015 |
| Patents | 75,000 | 214 | 65,510 | 31 | 9,490 |
| | 1,24,500 | | 1,09,995 | | 14,505 |

Therefore, depreciation to be allowed in the hands of the company is ₹1,09,995 and depreciation to be allowed in the hands of the LLP is ₹14,505.

Asset partly used for business and partly for personal purpose:

- If any asset is partly used for business and partly for personal purposes, then proportionate usage made for business (as determined by A.O) will only be allowed as depreciation deduction.
- The depreciation deduction allowed above will only be reduced from the depreciable value of block.

Eg: Car value is 15,00,000 and is used for business and personal purposes. A.O determined 75% usage is for business purpose.

Now, depreciation allowed as deduction is $(15,00,000 \times 15\% \times 75\%)$, 1,68,750. [1,68,750 will only be reduced from the block]

If asset is used to earn composite income:

- If asset is used to earn composite income i.e, partly agricultural and partly business income, then for computing WDV, depreciation shall be computed as if the asset is completely used for business.
- The depreciation so computed shall be **deemed** to have been **actually allowed** to the assessee.

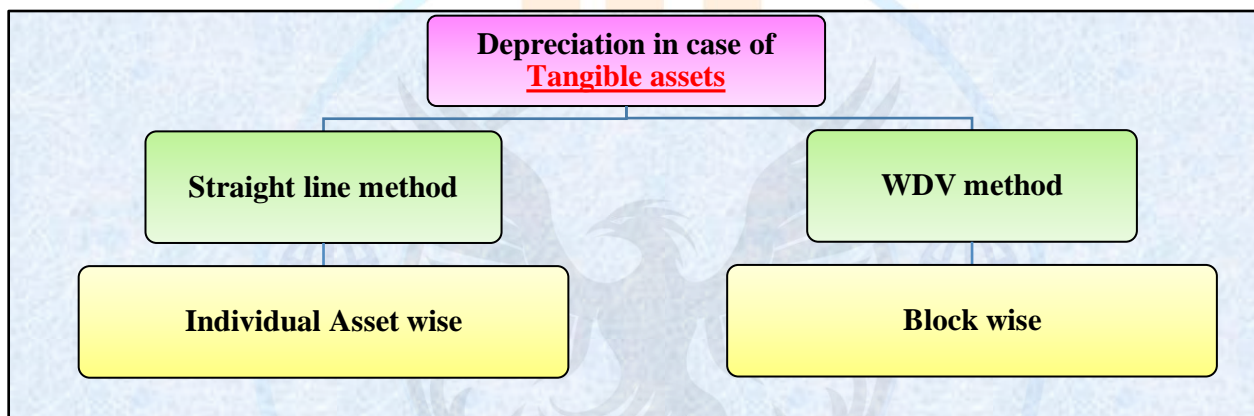
Eg: Mr. Hari is engaged in business of growing and manufacturing of rubber. In that case 35% is only taxable under PGBP. Let's say turnover is 25 lakhs, depreciation is 2 lakhs and other expenses are 5 lakhs.

| | |
|--|------------|
| Turnover | 25 lakhs |
| <u>Less:</u> Depreciation | (2) lakhs |
| Other Expenses | (5) lakhs |
| Income | 18 lakhs |
| Agricultural Income ($18 \times 65\%$) | 11.7 lakhs |
| Business Income ($18 \times 35\%$) | 6.3 lakhs |

Depreciation of 2 lakhs will be reduced from WDV of the block

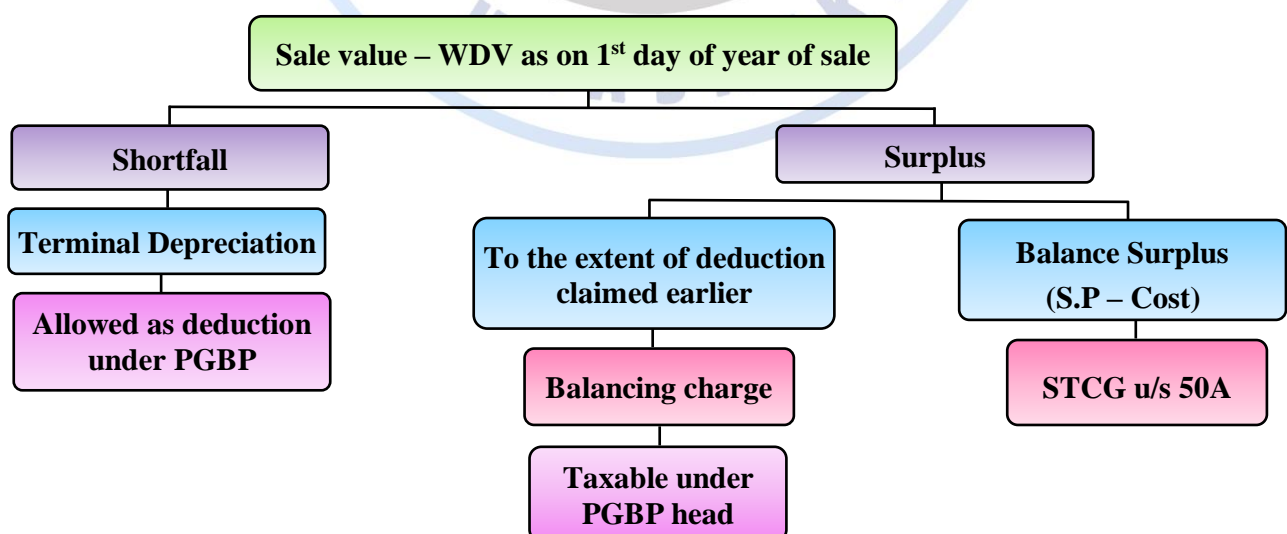
SLM of depreciation for Power Generation Undertakings:

In case of power generation undertakings, for calculating depreciation in case of tangible assets, two options are available-



Sec. 50A: Calculation of C.G in case of P.G.U following SLM of depreciation:

Tax Treatment in the year of sale:

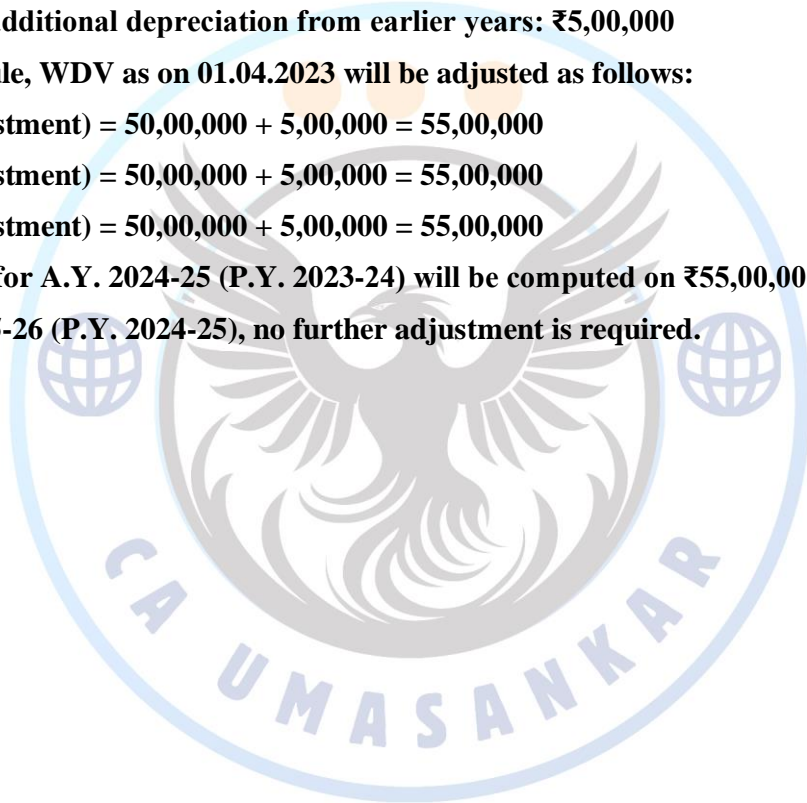


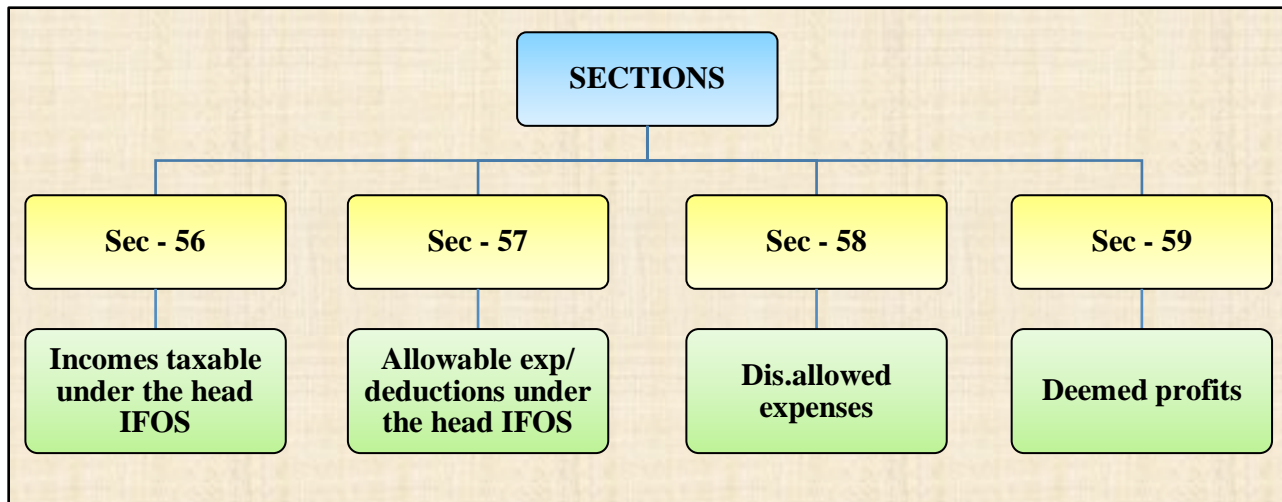
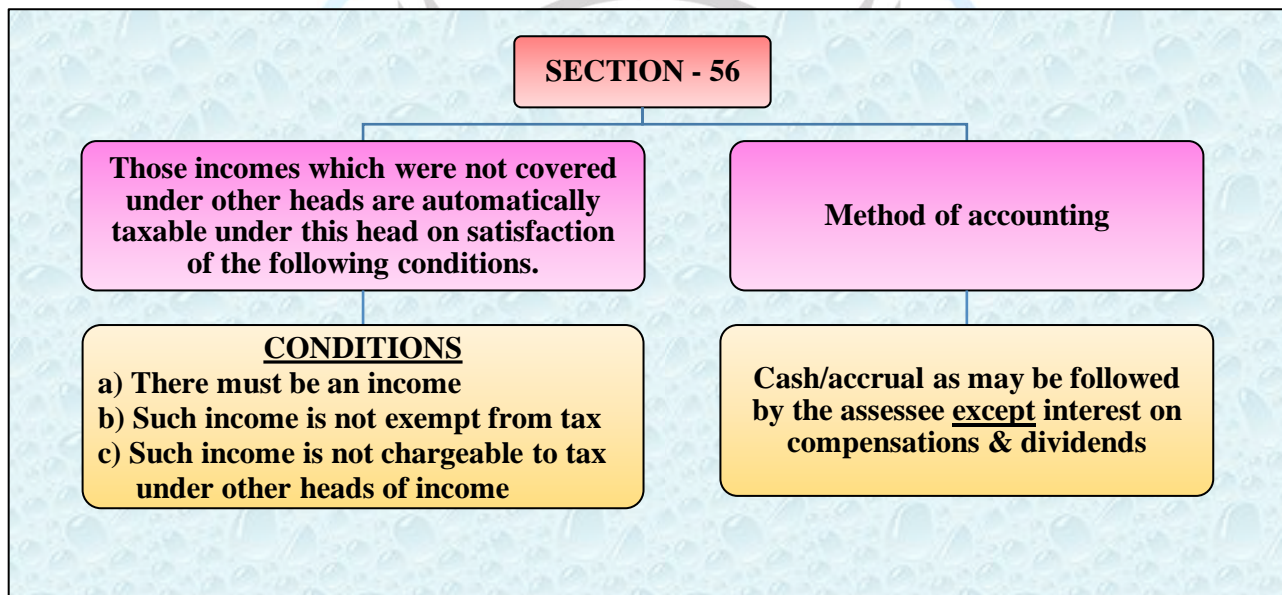
Transitional depreciation provisions under default tax regime:

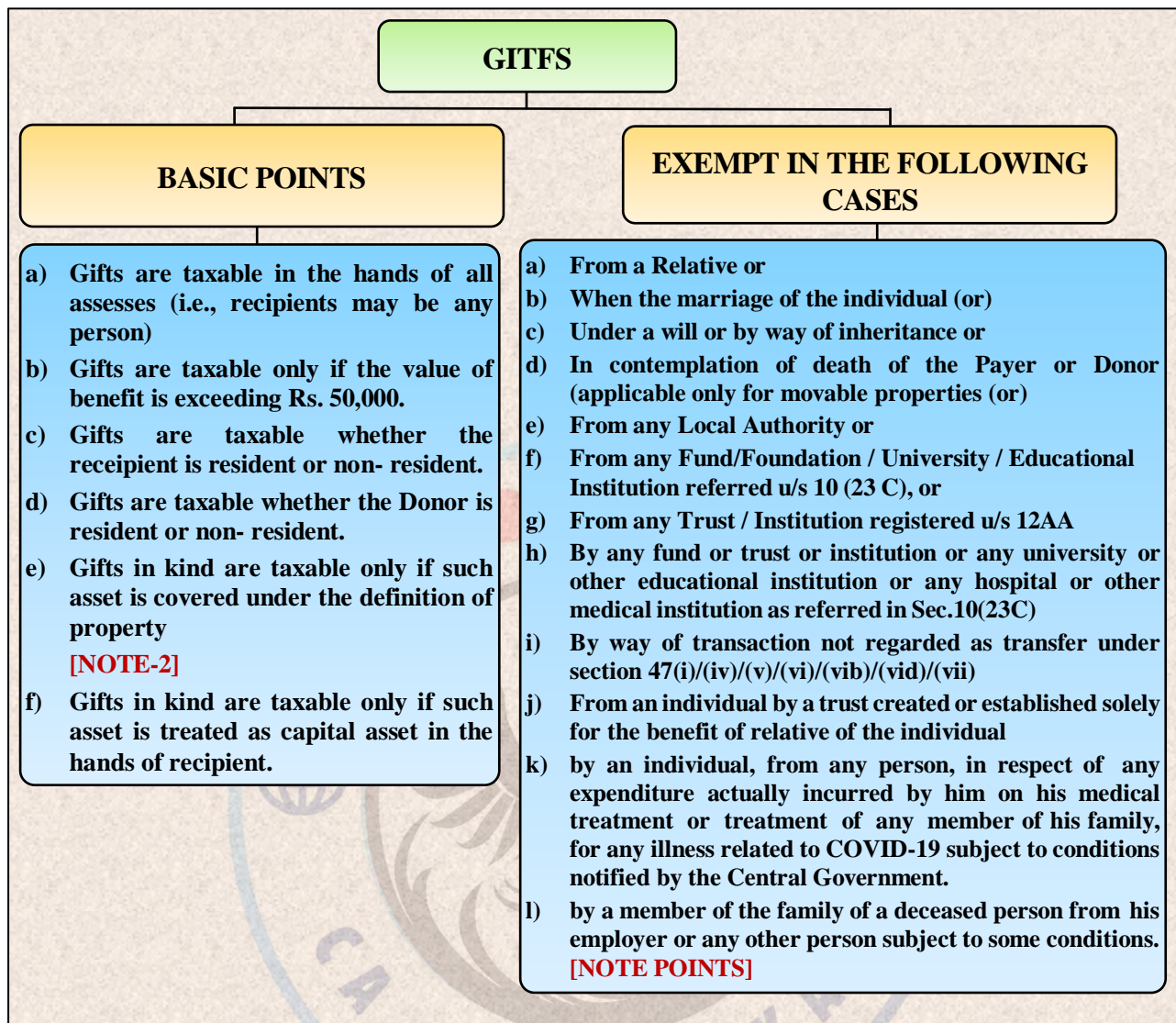
- Under the default tax regime (Section 115BAC from P.Y 2023-24 onwards), additional depreciation is not allowed.
- However, unabsorbed additional depreciation from earlier years (before P.Y 2023-24) cannot be set off in P.Y 2023-24 either.
- To compensate for this, the WDV of the block of assets as on 01.04.2023 (beginning of P.Y. 2023-24) is increased by the amount of such unabsorbed additional depreciation.

EXAMPLE FOR CLARITY:**Scenario:**

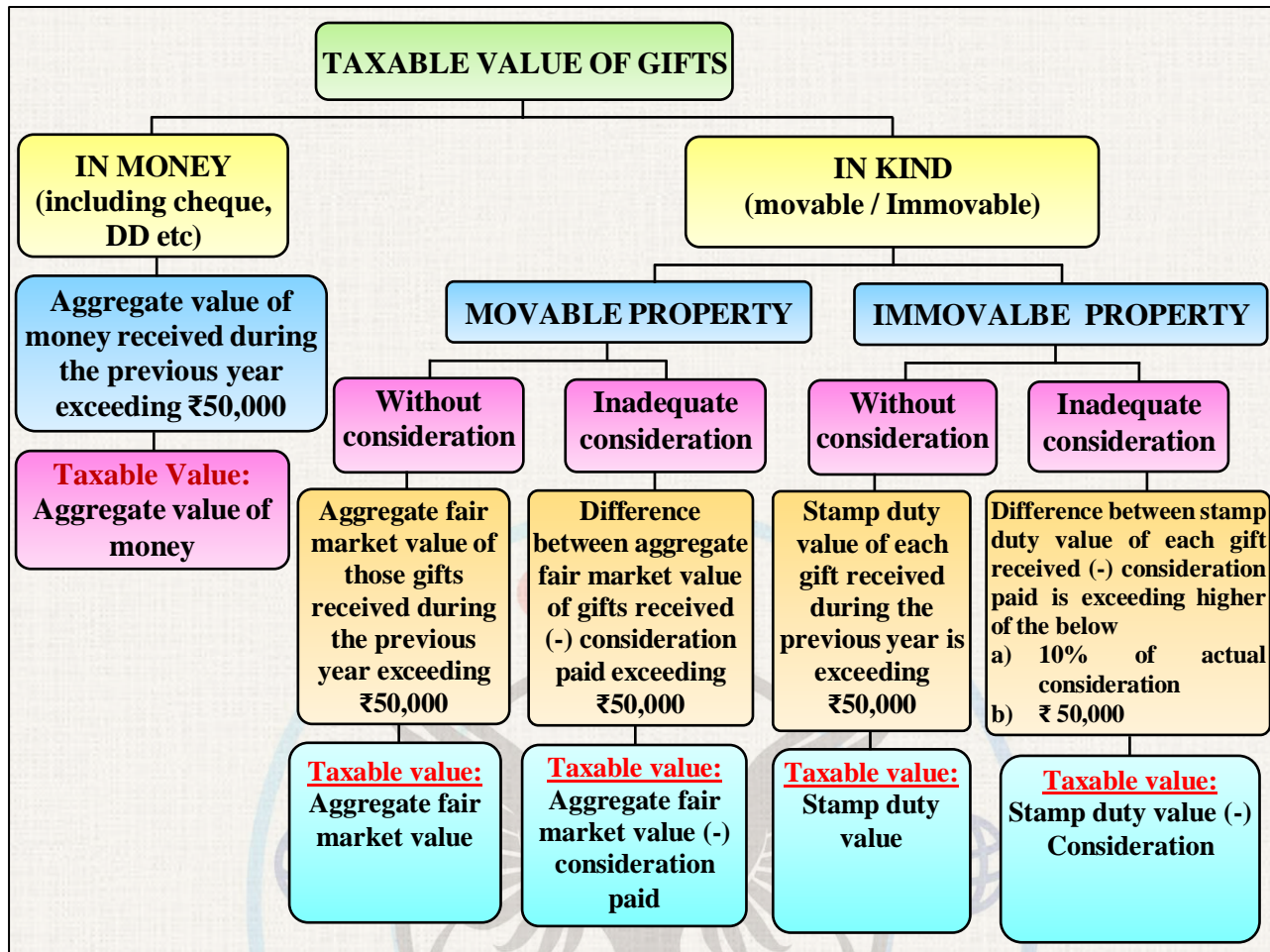
- Opening WDV as on 01.04.2023 (before adjustment): ₹50,00,000
- Unabsorbed additional depreciation from earlier years: ₹5,00,000
- As per new rule, WDV as on 01.04.2023 will be adjusted as follows:
 $\text{WDV (after adjustment)} = 50,00,000 + 5,00,000 = 55,00,000$
 $\text{WDV (after adjustment)} = 50,00,000 + 5,00,000 = 55,00,000$
 $\text{WDV (after adjustment)} = 50,00,000 + 5,00,000 = 55,00,000$
- Depreciation for A.Y. 2024-25 (P.Y. 2023-24) will be computed on ₹55,00,000.
- For A.Y. 2025-26 (P.Y. 2024-25), no further adjustment is required.



8. INCOME FROM OTHER SOURCES**A) SECTIONS:****B) SEC 56 - CHARGING SECTION:****STUDENT NOTES:**

C) GIFTS:**NOTE POINT:**

- From the employer of the deceased person (without any limit); or from any other person or persons to the extent that such sum or aggregate of such sums \leq ₹ 10 lakhs, subject to following conditions:
 - Where the cause of death of such person is illness related to COVID-19 and
 - The payment is received within 12 months from the date of death of such person; and Subject to such other conditions notified by the Central Government.
- Family for this purpose of (k) and (l) above, family in relation to an individual means:**
The spouse and children of the individual; and the parents, brothers, and sisters of the individual or any of them, wholly or mainly dependent on the individual

**DEFINITIONS:****1) RELATIVE INCLUDES:****a) For Individual:**

- Spouse of the individual
- Brother or Sister of the individual,
- Brother or Sister of the Spouse of the individual
- Brother or Sister of either of the Parents of the individual.
- Any lineal ascendant or descendant of the individual
- Any Lineal ascendant or descendant of the Spouse of the individual
- spouse of the Person referred to in clauses (ii) to (vi) above

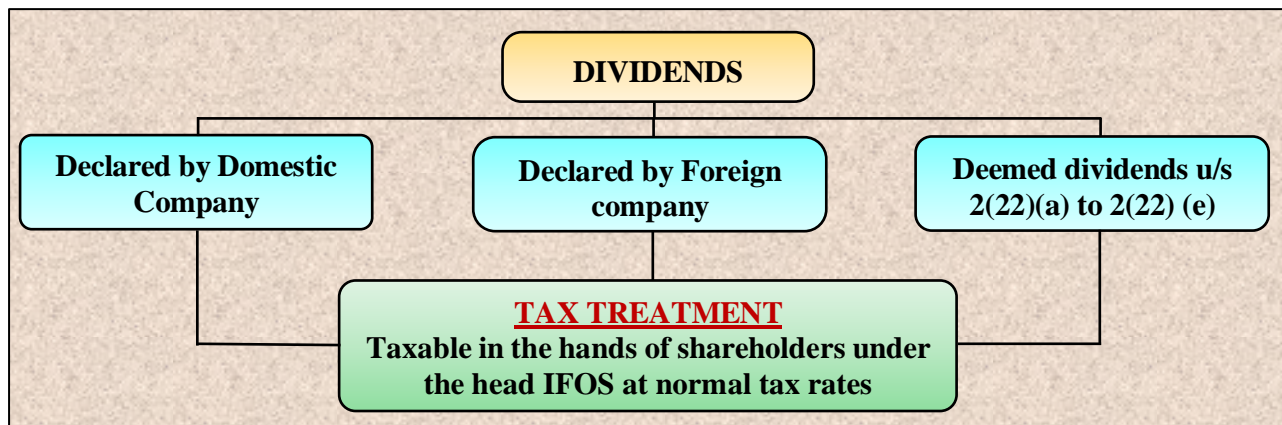
b) HUF: Any member of HUF**2) PROPERTY DEFINITION:****a) Immovable:** Land building both**b) Movable:**

- Shares & Securities, Jewellery,
- Archeological collections,
- Drawings,
- paintings Sculptures, any work of Art Bullion.
- It also includes virtual digital asset.

[The provisions relating to Virtual digital asset will be dealt with at Final level]

NOTE POINTS:

- 1) Gift received by employee from employer will be taxable under the head salaries (sec. 17(2)(viii))
- 2) Gift received with connection with business/profession from his clients will be taxable under the head PGBP (sec. 28)

D) DIVIDENDS:**NOTE POINTS:**

- 1) Income distributed by specified co. or mutual fund shall be taxable in the hands of unit holders.
- 2) **Deduction from dividend income:** Deduction Is available only to interest on loan taken for investment in such securities and deduction Is Restricted To 20% Of Amount Received.

SECTION 8 - BASIS OF CHARGE OF DIVIDEND:

| CASE | YEAR OF CHARGEABILITY |
|--|--|
| ➤ Final Dividend | Previous year in which it is so declared |
| ➤ Interim dividend | Previous year in which such dividend is unconditionally made available |
| ➤ Deemed dividend u/s 2(22)(a)/(b)/(c)/(d) | Previous year in which it is so distributed |
| ➤ Deemed dividend u/s 2(22)(e) | Previous year in which it is so paid. |

E) DEEMED DIVIDENDS:

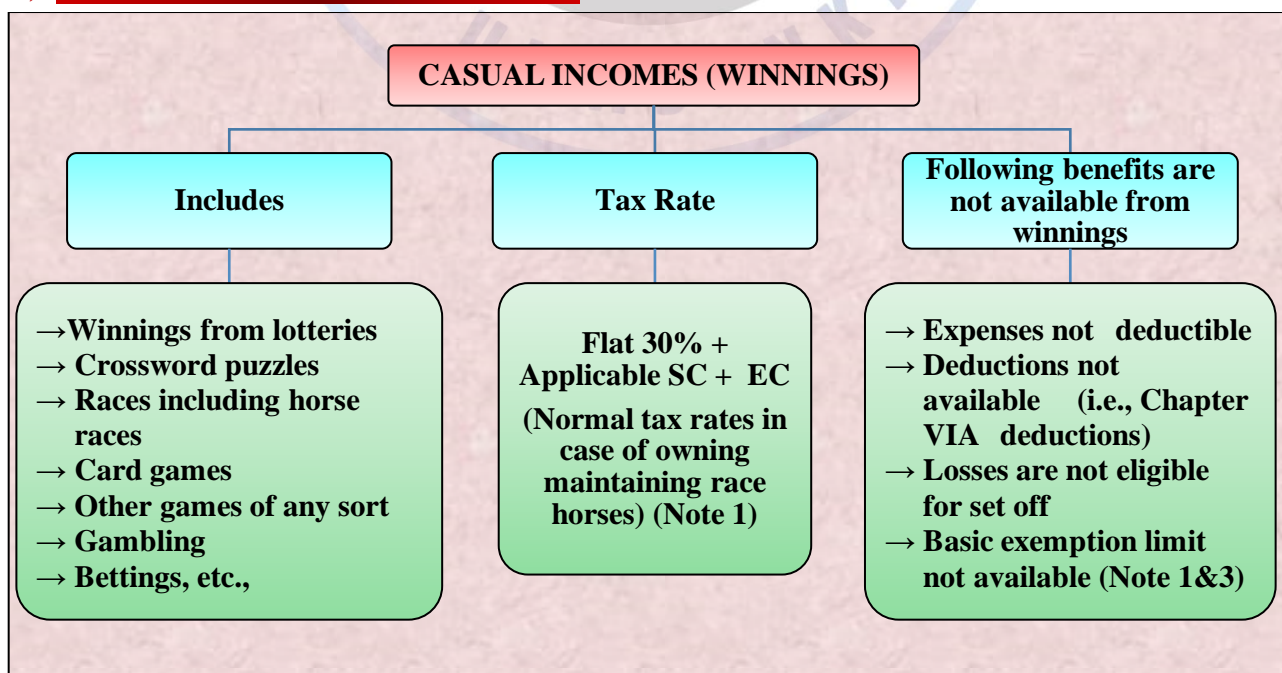
| Section | CASE |
|----------|---|
| 2(22)(a) | Distribution of accumulated profits, whether capitalized or not, by a company to its shareholders is a dividend if it entails the release of all or any part of its assets. |
| 2(22)(b) | Distribution to its shareholders by a company of debenture, debenture stock or deposit certificate in any form, whether with or without interest, and any distribution of bonus shares to preference shareholders to the extent to which the company possesses accumulated profits, whether capitalized or not, will be deemed as dividend. NOTE: distribution of bonus shares to equity shareholders is not treated as deemed dividends. |
| 2(22)(c) | Distribution made to the shareholders of a company on its liquidation, to the extent to which the distribution is attributable to the accumulated profits of the company immediately before its liquidation, whether capitalized or not. NOTE: Any distribution made out of the profits of the company after the date of the liquidation cannot amount to the dividend. |
| 2(22)(d) | Distribution to its shareholders by a company on the reduction of its capital to the extent to which the company possessed accumulated profits, whether capitalized or not. |
| 2(22)(e) | Any payment by a company in which the public are not substantially interested of any sum by way of advance or loan to the following persons will be deemed to be a dividend to the extent of the accumulated profits. |

| | |
|----------|--|
| | a) To equity share holder (holding $\geq 10\%$ voting power) (i.e., beneficial owner) b) To any concern (in which equity share holder holding $\geq 10\%$ voting power has substantial interest in concern) |
| 2(22)(f) | Amount received by a shareholder on account of buyback will be deemed as dividend u/s 2(22)(f) regardless of the quantum of "accumulated profits" of the distributing company. |

NOTE POINTS:

- 1) Security Premium is not accumulated profit.
- 2) Accumulated Profit is to be taken up to the date of distribution, However, for Section 2(22)(c) profit up to the date of winding is taken.
- 3) Trade advances would not fall within the ambit of the word 'advance' in Section 2(22)(e) and therefore would not be treated as deemed dividend.
- 4) Sec. 2(22)(e) is not applicable to any advance or loan given by a company during the normal course of its business and if the money lending is a major part of the business of the company.
- 5) If an advance is received for construction of building by a shareholder, and subsequently adjusted from rent payable by the company, the advance received by the shareholder is deemed dividend u/s 2(22)(e).
- 6) Loan given by a Company to its low paid employee, who in turn gives it to the Managing Director of the Company, shall be treated as Deemed Dividend u/s 2(22)(e), in the hands of the Managing Director.
- 7) Any distribution made in accordance with Sec.2(22)(c) and Sec.2(22)(d) in respect of any share issued for full cash consideration and the holder of such share is not entitled to participate in the surplus asset in the event of liquidation.

***Nonparticipating shareholders: Non-participating shares do not provide their holders with a share of the earnings of the issuing entity. Instead, these shares typically provide a fixed rate of return in the form of a dividend, and so are designated as preferred shares.

F) CASUAL INCOMES (WINNINGS):

NOTE:

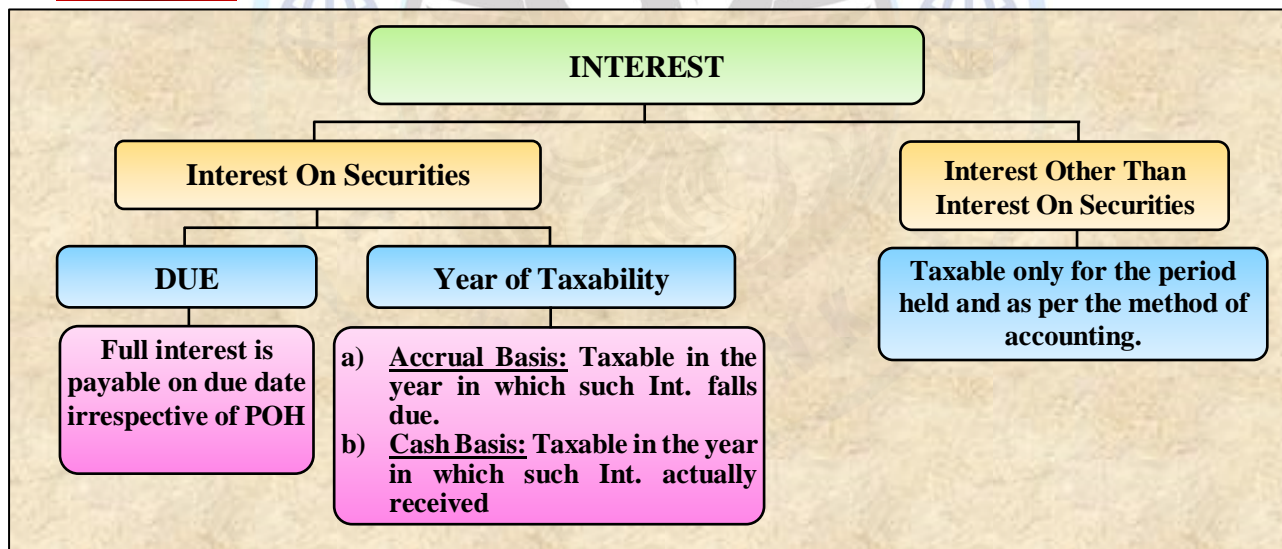
- 1) Owning and maintaining racehorses is not treated as winnings. Hence the applicable tax rate is normal tax rates and Eligible for Deduction of all expenses and deductions.
- 2)
$$\text{Gross winnings} = \text{Net winning} \times \frac{100}{100 - \text{tax rate (TDS)}}$$

(Gross winnings shall be considered for calculating total income)
- 3) Where a certain % has to be foregone by the winner to the Government / agency conducting the lotteries, it is deductible.

NOTE POINTS:

- 1) Winnings from Motor Car Rally are a return for skill and endurance, hence It is taxable as Business Income.
- 2) Jackpot winnings even if credited in business accounts, the nature of jackpot winnings as income from other sources.
- 3) Unsold Tickets with Agent: Income accruing to an Agent / Trader in respect of prizes on unsold / unclaimed lottery tickets in possession of an Agent is income from business and does not constitute winnings from lotteries.
- 4) Where an Assessee does not maintain any books of account, Lottery Prize won by him would accrue in the year in which it is received by the Assessee, and not in the year in which the prize is declared.

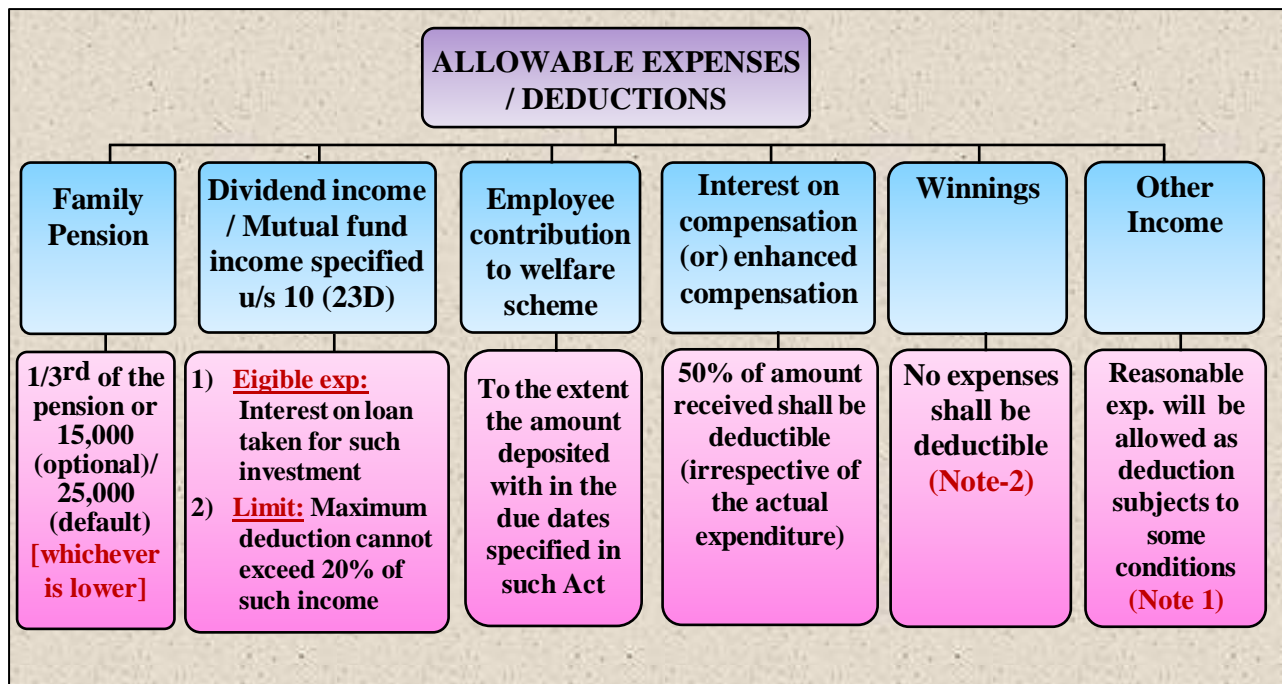
G) INTEREST:



- Post office Savings Bank Accounts (Exempted up to Rs. 3,500 in case of Individual accounts and Rs.7,000 in case of Joint accounts).

STUDENT NOTES:



H) SEC.57 - ALLOWABLE EXPENSES / DEDUCTIONS:**NOTES:****1) CONDITIONS:**

- It should not be a capital expenditure, and
- It should be incurred during previous year, and
- It should not be a personal expenditure, and
- It should have been expended wholly and exclusively for earning the income

2) No expenses shall be deductible from deemed dividends u/s 2(22)(f).**3) Where a certain % has to be foregone by the winner to the Government / agency conducting the lotteries, it is deductible.****4) The above deductions are allowable both under the default tax regime u/s 115BAC and under the optional tax regime i.e., normal provisions of the Act.****I) SEC.58 - INADMISSIBLE EXPENDITURE**

| | |
|----|---|
| 1) | Any personal expense. |
| 2) | Interest or salary payable outside India if tax has not been paid or deducted at source. |
| 3) | 30% of 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 <ol style="list-style-type: none"> Such tax has not been deducted or Such tax after deduction has not been paid on or before the due date of return specified in section 139(1). |
| 4) | No deduction shall be allowed in respect winnings from lotteries, crossword puzzles, betting, card games, TV shows, gambling & races including horse races etc. However, Where, a certain % has to be foregone by the winner to the Government/agency conducting the lotteries, it is deductible). |

| | |
|----|--|
| 5) | Any expenditure in respect of which a payment is made to a related person, to the extent the same is considered excessive or unreasonable by the Assessing Officer, having regard to the FMV. |
| 6) | Payment or aggregate of payments exceeding ₹10,000 or ₹35,000, as the case may be, made to a person during a day otherwise than by account payee cheque or draft or ECS through bank account or through such other prescribed electronic mode. |

J) SEC.59 - DEEMED PROFITS:

Where a deduction has been made in respect of a loss, expenditure or liability and subsequently any amount is received or benefit is derived in respect of such expenditure incurred or loss or trading liability allowed as deduction, then, it shall be deemed as income in the year in which the amount is received or the benefit is accrued. (similar to sec.41(1) in PGBP).



9. INCOME OF OTHER PERSONS INCLUDED IN ASSESSEE'S TOTAL INCOME (CLUBBING PROVISIONS)

A) SECTIONS:

| | |
|-----------------|--|
| Sec 60 | •Transfer of Income without Transfer of Asset |
| Sec 61 | •Income arising from revocable transfer of assets |
| Sec 62 | •Exception where clubbing provisions are not attracted even in case of revocable transfer |
| Sec 63 | •Meaning of revocable transfer |
| Sec 64(1)(ii) | •Income by way of remuneration from a concern in which the individual has substantial interest |
| Sec 64(1)(iv) | •Income arising to the spouse from an asset transferred without adequate consideration |
| Sec 64(1)(vii) | •Gift to third party for the benefit of spouse |
| Sec 64(1)(viii) | •Gift to third party for the benefit of son's wife |
| Sec 64(1A) | •Clubbing of minor's income |
| Sec 64(2) | •Conversion of self-acquired property into the property of a Hindu undivided family |
| Other Topics | •Cross transfers |

B) INTRODUCTION:

- 1) Generally, a taxpayer is required to pay tax in respect of income earned by him, which is chargeable to tax at slab rates i.e., tax rate increases as the amount of income increases
- 2) On account of this reason, some taxpayers in the higher income bracket have a tendency to divert some portion of their income to their spouse, minor child etc. to minimize their tax burden.

- 3) In order to prevent such tax avoidance, there are specific provisions under the Income tax Act 1961 to include the income of one person in the hands of another person in certain cases. This is generally called Clubbing of Income.

C) CLUBBING PROVISIONS:

| Sec. | HEADING | PROVISION |
|---------------|--|--|
| Sec.60 | Transfer of income without transfer of asset | <p>1) APPLICABILITY: Where an assessee transferred any income without transfer of asset.</p> <p>2) TREATMENT: The income so transferred will be eligible for clubbing in the hands of transferor.</p> |
| Sec 61 | Revocable transfer of asset | <p>1) APPLICABILITY: Where an assessee transferred any asset and the transfer is revocable.</p> <p>2) TREATMENT: All income arising to any person by virtue of a revocable transfer of assets is to be included in the total income of the transferor</p> <p>3) EXCEPTIONS [SEC 62]:</p> <ol style="list-style-type: none"> If the transfer is by way of trust which is not revocable during the lifetime of the beneficiary In case of any other transfer, is not revocable during the lifetime of the transferee. <p>In the above cases, the income from the transferred asset is not includible in the total income of the transferor, provided the transferor derives no direct or indirect benefit from such income.</p> <p>4) MEANING OF REVOCABLE TRANSFER [SEC 63]:</p> <p>A transfer is deemed to be revocable If</p> <ol style="list-style-type: none"> it contains any provision for the retransfer, directly or indirectly, of the income (whole or part) or assets (whole or part) to the transferor or It gives the transferor a right to reassume power over the income (part/full) or the asset at any time <p>NOTE: If the transferor receives direct or indirect benefit from such income, such income is to be included in his total income even though the transfer may not be revocable during the lifetime of the beneficiary or transferee, as the case may be. As and when the power to revoke the transfer arises, the income arising by virtue of such transfer will be included in the total income of the transferor.</p> |
| Sec 64(1)(ii) | Remuneration of spouse | <p>1) APPLICABILITY: Where an assessee is having substantial interest in any concern and his/her spouse received any remuneration (in cash or kind) from same concern without any technical or professional knowledge or experience.</p> <p>2) TREATMENT: Remuneration derived by a spouse from a concern, in which the person has a substantial interest, shall be clubbed in the hands of the spouse who has a substantial interest in that concern.</p> <p>NOTE: If the husband and wife both have substantial interest in the concern and both are in receipt of remuneration from the concern, then the remuneration shall be clubbed in the hands of that spouse whose total income, before including such remuneration, is greater.</p> <p>3) EXCEPTIONS:</p> <ol style="list-style-type: none"> No clubbing if remuneration is due to technical or professional qualifications of spouse. No clubbing in case of any income other than remuneration. <p>NOTE:</p> <p>1) MEANING OF SUBSTANTIAL INTEREST: Ownership of at least 20% equity shares / 20% of the profits of such concern at any time during the PY is held by individual along with his relatives.</p> |

| Sec. | HEADING | PROVISION |
|---------------|---|--|
| | | <p>2) "Relative" means the spouse, brother or sister or any lineal ascendant or descendant of the individual.</p> <p>3) CONCERN: The expression "concern" covers both business and professional concern.</p> |
| Sec 64(1)(iv) | Assets transferred to spouse (Gift to spouse) | <p>1) APPLICABILITY: If an individual transfers directly or indirectly any asset other than house property to his/her spouse For inadequate/ without consideration</p> <p>2) CONDITION: The above provision is applicable only if relationship of husband and wife should exist at the time of transfer of asset as well as at the time of generating the income.</p> <p>3) TREATMENT: The income from such an asset shall be included in the total income of the transferor.</p> <p>4) EXCEPTIONS:</p> <ol style="list-style-type: none"> If asset is transferred in connection with agreement to live apart. Transfer of asset for adequate consideration Asset purchases out of pin money. Transfer before marriage. <p>NOTE:</p> <ol style="list-style-type: none"> If a house property is transferred by an individual to his spouse or minor child, it will be covered U/S 27 (IFHP) This rule is applicable whether or not the transferee- spouse holds the asset in the same form or in a different form. It may be noted that any income from the accretion of the transferred asset is not to be clubbed with the income of the transferor. Pin Money: An allowance given to by her husband for household expenses |
| Sec 64(1)(vi) | Assets transferred to son's wife (Gift to son's wife) | <p>1) APPLICABILITY: Where an asset is transferred, directly or indirectly, by an individual to his or her son's wife without adequate consideration,</p> <p>2) TREATMENT: The income from such asset is to be included in the total income of the transferor.</p> <p>3) CONDITION: The relationship between the parties should subsist both at the time of transfer of asset and at the time when income is accrued.</p> <p>4) EXCEPTIONS: the above provision is not applicable in the following cases:</p> <ol style="list-style-type: none"> Transfer of asset for adequate consideration. Transfer of asset to son's wife before marriage. <p>NOTE:</p> <ol style="list-style-type: none"> This rule is applicable whether (or not) the daughter-in-law holds the asset in the same form or in a different form. Asset transferred invested in the business: For this purpose, where the assets transferred directly or indirectly by an individual to his or her son's wife are invested by the transferee in the business, proportionate income arising from such investment is to be included in the total income of the transferor. If the investment is in the nature of contribution of capital, the proportionate interest on capital will be clubbed with the income of the transferor. <p>Such proportion has to be computed by taking into account the value of the aforesaid investment as on the first day of the previous year to the total investment in the business or by way of capital contribution in a firm as a partner, as the case may be, by the transferee as on that day.</p> |

| Sec. | HEADING | PROVISION |
|------------------|---|--|
| Sec 64(1)(vii) | Gift to third party for the benefit of spouse | <ol style="list-style-type: none"> 1) APPLICABILITY: If an individual transfers an asset, directly or indirectly, without adequate consideration to a person, trust or an AOP for the benefit of his or her spouse, 2) TREATMENT: Income arising from the transferred assets will be included in the total income of the transferor to the extent of such benefit. 3) CONDITION: The relationship of husband and wife should subsist both at the time of transfer of asset and at the time when income is accrued. 4) EXCEPTIONS: the above provision is not applicable in the following cases: <ol style="list-style-type: none"> a) Transfer of asset for adequate consideration. b) Transfer of asset before marriage. |
| Sec 64(1) (viii) | Gift to third party for the benefit of Son's wife | <ol style="list-style-type: none"> 1) APPLICABILITY: If an individual transfers an asset, directly or indirectly, without adequate consideration to a person, trust or an AOP for the benefit of his or her son's wife. 2) TREATMENT: Income arising from the transferred assets will be included in the total income of the transferor to the extent of such benefit. 3) CONDITION: The relationship should subsist both at the time of transfer of asset and at the time when income is accrued. 4) EXCEPTIONS: the above provision is not applicable in the following cases: <ol style="list-style-type: none"> a) Transfer of asset for adequate consideration. b) Transfer of asset before marriage. |
| Sec. 64(1a) | Income of a minor child | <ol style="list-style-type: none"> 1) PROVISION: All incomes of minor child will be included in the income of that parent whose total income (other than minor's income) is greater. 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. 2) EXEMPTION UNDER SECTION 10(32): In case the income of an individual includes the income of his or her minor child in terms of section 64(1 A), such individual shall be entitled to exemption of Rs. 1,500 in respect of each minor child. However, exemption u/s 10(32) would not be available to him/her under the default tax regime where he/she computes his/her total income as per section 115BAC and pays tax at the concessional rates provided there under 3) EXCEPTIONS: The following income will be taxable in the hands of minor child- <ol style="list-style-type: none"> a) Income of minor child (from all sources) suffering from any disability of the nature specified under section 80U. b) Income of minor child on account of any manual work. c) Income of minor child on account of any activity involving application of his skill, talent or specialized knowledge and experience. <p>NOTE:</p> <ol style="list-style-type: none"> 1) Once clubbing of minor's income is done with that of one parent, it will continue to be clubbed with that parent only, in subsequent years. The Assessing Officer, may, however, club the minor's income with that of the other parent, if, after giving the other parent an opportunity to be heard, he is satisfied that it is necessary to do so. 2) Minor children include stepchildren, adopted children, minor married daughter. 3) Any income to minor children on investing income of manual work or special talent shall be clubbed (i.e., Income on income). |

| Sec. | HEADING | PROVISION |
|------------|--|--|
| | | <p>4) if a minor child attained majority during the P.Y. Income of minor child till majority will be clubbed afterwards not to be clubbed</p> <p>5) Once clubbing of minor's income is done with that of one parent, it will continue to be clubbed with that parent only, in subsequent years. The Assessing Officer, may, however, club the minor's income with that of the other parent, if, after giving the other parent an opportunity to be heard, he is satisfied that it is necessary to do so.</p> <p>6) In case of transfer of house property to a minor child other than minor married daughter for inadequate consideration sec 27 shall attract and sec 64(1A) shall not attract same way exemption u/s 10(32) would not be available for transferor (Parent).</p> |
| Sec. 64(2) | Conversion of self- acquired property into joint family property | <p>1) APPLICABILITY: When a member of a Hindu undivided family converts his property into joint family property or when a member transfers his property for an inadequate consideration/without consideration to his Hindu undivided family.</p> <p>2) TREATMENT:</p> <p>a) Clubbing before partition: Income from such property shall be included in the hands of the person who has transferred/ converted the property.</p> <p>b) Clubbing after partition: If the property converted or transferred by an individual is subsequently transferred amongst the members of the family, the income derived from such converted property, as is received by the spouse of the transferor will be included in the income of the transferor.</p> |

CROSS TRANSFER:

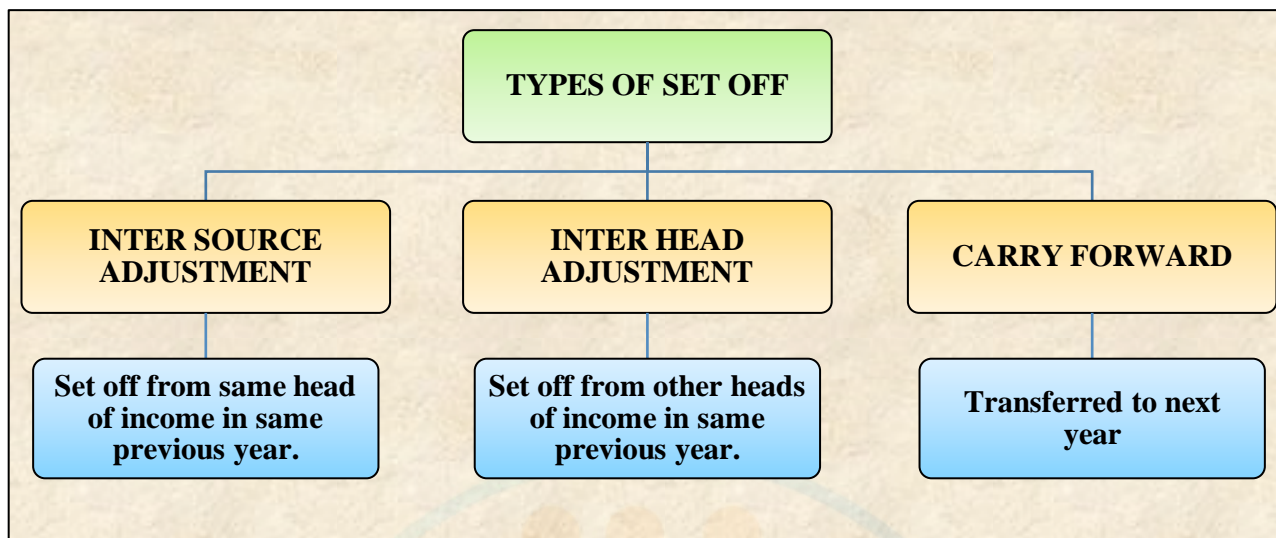
In the case of cross transfers also the income from the assets transferred would be assessed in the hands of the deemed transferor if the transfers are so intimately connected as to form part of a single transaction, and each transfer constitutes consideration for the other by being mutual or otherwise.

COMMON POINTS:

- 1) **INCOME ON INCOME:** In case of gift, only income accrued on such gifted asset is eligible for clubbing in the hands of transferor, but any income arising on such income is not to be clubbed, (i.e., income on income)
- 2) **IDENTITY OF ASSET GIFTED CHANGED:** Where cash is gifted by an assessee to his wife & she
- 3) invests same in deposit; interest income is includible in the assessee's total income.
- 4) If part of the consideration is paid, only that part of the income attributable to transfer for inadequate consideration is includable in the hands of the transferor.
- 5) **TRANSFER OF CAPITAL ASSET RECEIVED AS GIFT:** the resultant capital gain or capital loss will be eligible for clubbing in the hands of transferor.
- 6) **TRANSFERRED ASSET INVESTED IN BUSINESS:** Where the assets transferred, directly or indirectly, by an individual to his spouse are invested by the transferee in the business, proportionate income arising from such investment is to be included in the total income of the transferor. If the investment is in the nature of contribution of capital, proportionate interest on capital will be clubbed with the income of the transferor.

- 7) Such proportion has to be computed by taking into account the value of the aforesaid investment as on the first day of the previous year to the total investment in the business or by way of capital contribution in a firm as a partner, as the case may be, by the transferee as on that day.
- 8) Exempted incomes will not be clubbed.
- 9) Deductions under Chapter VIA are available for clubbed income and any eligible losses can also be set off against such income.
- 10) Any income from the accretion of the transferred asset is not to be clubbed with the income of the transferor. i.e., the income arising on transferred assets alone have to be clubbed.
- 11) Head of income under which the clubbed income will be included: After computing the income in the hands of recipient, it will be included under the same head of income in the hands of other person.
- 12) **CLUBBING OF NEGATIVE INCOME:** If income is negative and clubbing provisions are applicable, then negative income would be clubbed.
- 13) **DISTINCTION BETWEEN SEC 61 AND SEC 64:** Section 61 applies only to a revocable transfer made by any person while section 64 applies to revocable as well as irrevocable transfers made only by individuals.



10. SET OFF AND CARRY FORWARD OF LOSSES

| Losses | Inter source or intra head set off (sec 70) | Inter head (sec 71) | Carry forward & set off |
|----------------------------------|--|---|--|
| Loss From House Property | ✓ | ✓ (Except Winnings) Note: maximum inter head adjustment cannot exceed 2 lakhs Note: Available only if shift out from default tax regime. | a) Section: Sec.71B b) Carry forward period: 8 A.Y year c) Set off from: IFHP only NOTE: Available only if shift out from default tax regime. |
| PGBP | | | |
| 1) Non-Speculative Business Loss | ✓ (Both Speculative and Non-Speculative and Specified Business Profits) | ✓ (Except Salary And Winnings) | a) Section: Sec. 72 b) Carry Forward Period: 8 A.Yrs c) Set off from: PGBP (Speculative and non-speculative and Specified) |
| 2) Speculative Business Loss | ✓ (Only From Speculative Profits) | X | a) Section: Sec.73 b) Carry Forward Period: 4 A.Yrs c) Set off from: Only from Speculative Profits |
| 3) Specified Business Loss | ✓ (Only From Specified Business Profits) Note: Available only if shift out from default tax regime. | X | a) Section: Sec. 73A b) Carry Forward Period: unlimited period c) Set off from: Only from Specified Business Profits Note: Available only if shift out from default tax regime. |

| Losses | Inter source or intra head set off (sec 70) | Inter head (sec 71) | Carry forward & set off |
|--|---|-----------------------------------|---|
| 4) <u>Unabsorbed expenses:</u> a) Unabsorbed depreciation b) Unabsorbed capital expenditure Relating to specific research. c) Unabsorbed family planning expenditure | ✓ | ✓ (Except Salary And Winnings) | a) <u>Carry Forward Period:</u> Unlimited Period b) <u>Set off from:</u> Any head except salary and winnings. |
| CAPITAL GAIN | | | |
| 1) Long Term Capital Loss | ✓ (Only from LTCG) | X | a) <u>Section:</u> Sec.74 b) <u>Carry forward period:</u> 8 A.Yrs c) <u>Set off from:</u> LTCG only |
| 2) Short Term Capital Loss | ✓ (Both from LTCG AND STCG) | X | a) <u>Section:</u> Sec.74 b) <u>Carry Forward Period:</u> 8 AY c) <u>Set off from:</u> Capital Gains (LT/ST) |
| OTHER SOURCES | | | |
| 1) Loss from owing and Maintaining Racehorses | ✓ (Only from such type of activity) | X | a) <u>Section:</u> Sec.74A b) <u>Carry Forward Period:</u> 4 A.Yrs c) <u>Set off from:</u> From Such Type of Activity only |
| 2) Casual Losses | X | X | X |
| 3) Other losses | ✓ | ✓ | X |

STUDENT NOTES:

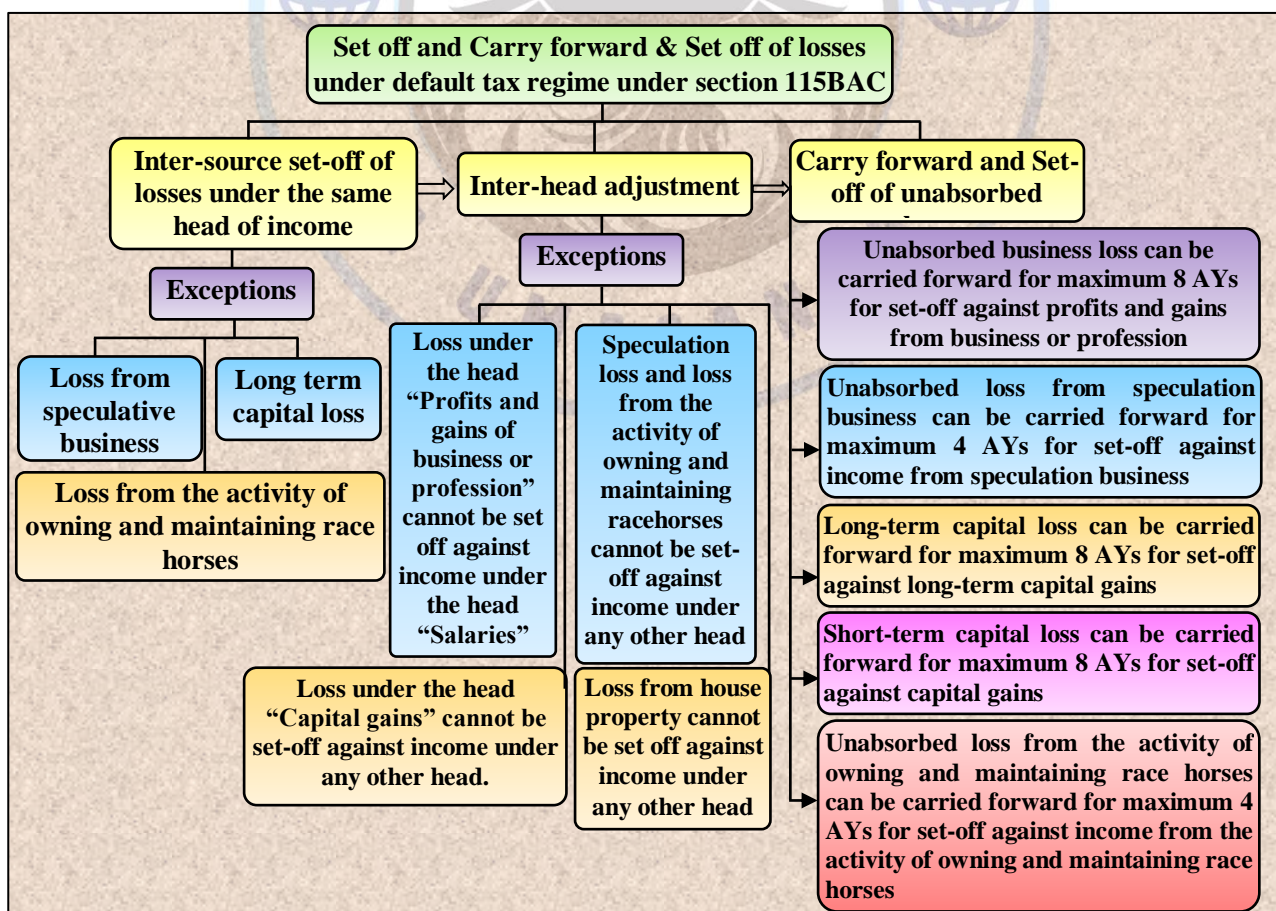
NOTES:

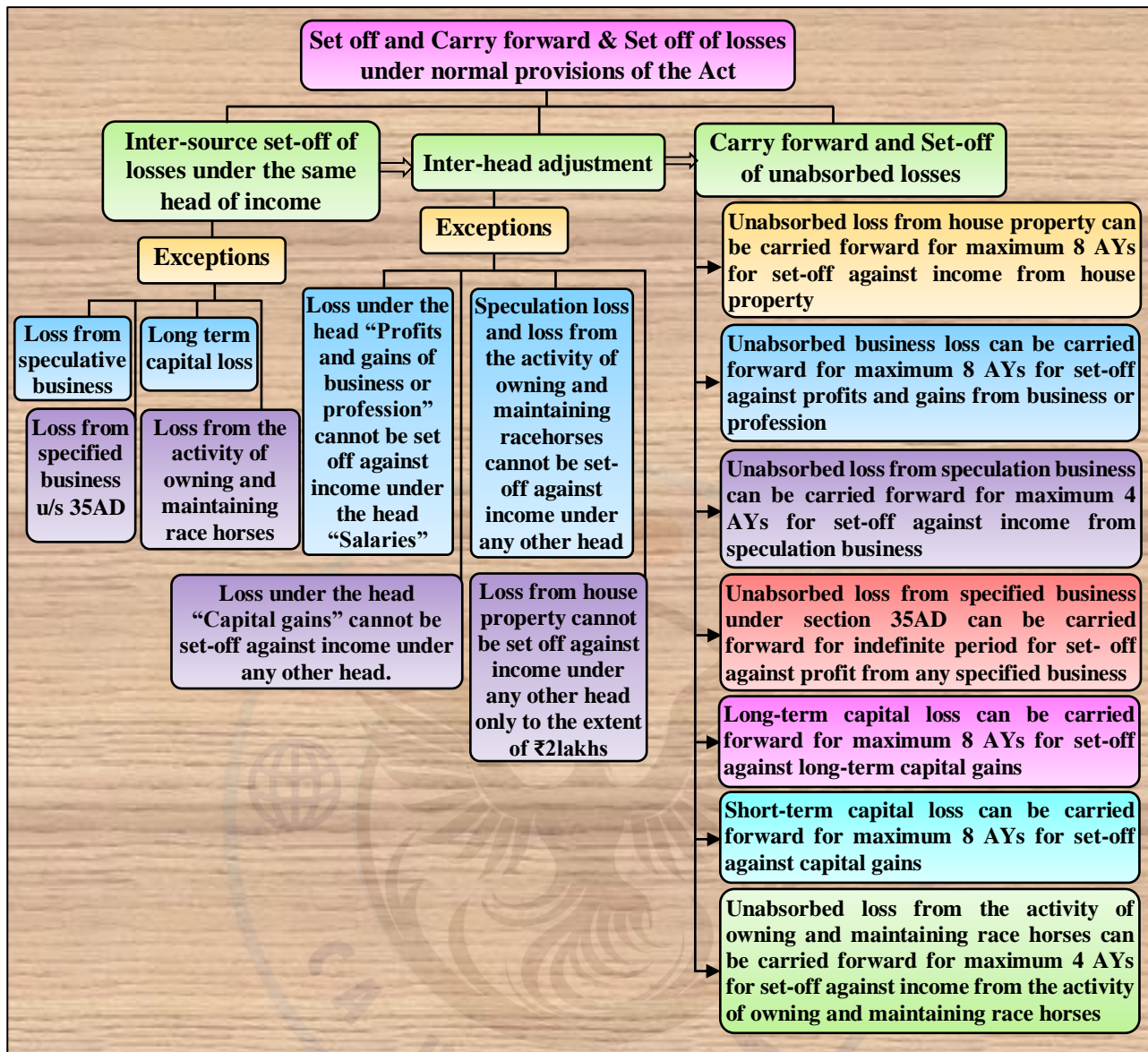
| | |
|-----|---|
| 1) | LOSS RETURN (SEC.80): The assessee must file the loss return, otherwise carry forward facility is not available subject to the following conditions. |
| | <div style="text-align: center;"> <div style="border: 1px solid black; padding: 5px; margin: 0 auto; width: 200px;">LOSS RETURN</div> <div style="display: flex; justify-content: space-around; margin-top: 20px;"> <div style="border: 1px solid black; padding: 5px; width: 45%;"> loss return must be filed with in the due date u/s 139(1) for carry forward of following losses </div> <div style="border: 1px solid black; padding: 5px; width: 45%;"> losses eligible for carry forward even if the loss return was filed after due date u/s (139(1)) </div> </div> <div style="display: flex; justify-content: space-around; margin-top: 20px;"> <div style="border: 1px solid black; padding: 5px; width: 45%;"> a) PGBP losses (both speculative and non-speculative & specified) b) capital loss (both ST & LT) c) loss from owing and maintaining race horses </div> <div style="border: 1px solid black; padding: 5px; width: 45%;"> a) loss from HP b) Unabsorbed expenses </div> </div> </div> |
| 2) | No loss can be set off against the casual incomes (winnings). |
| 3) | Remember in Sec. 41(5), business loss can be c/f and s/o for > 8 years only against sec 41 income specified under section 41(1) to 41(4). |
| 4) | In case of an assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), Specified business loss (Sec.35AD) can be set off against specified business income only. However, losses from other business can be set-off against profits from specified business. |
| 5) | Loss from a source of income which is exempt from tax: In case those sources of incomes which are exempt from tax, any loss from such source can't be set off against profits of any taxable source of income. In other words, such a loss is a <i>dead loss</i> . |
| 6) | Loss can be set off against income clubbed in the hands of assessee |
| 7) | Loss incurred in speculative business in banned items cannot be carried forward to the next year. |
| 8) | Loss in a speculative transaction entered into on behalf of principal, is non-speculative loss. |
| 9) | Explanation to SEC.73: A company whose principal business is that of trading in shares has been excluded from the purview of the explanation to sec.73. Consequently, such activity shall not be regarded as speculation activity and any loss arising there from shall be treated as normal business loss and not as speculation loss. |
| 10) | The assessee opted the provision u/s 115BAC etc., then the losses from HP cannot be set off against other head of income (i.e., inter head facility not available) |
| 11) | If more than one source of income available for set off of loss then the assessee can set off against any income which is beneficial to him. |
| 12) | Set off is not optional, but compulsory. Partial set off is not permissible, even if it is beneficial to the assessee when full loss can be set off. |
| 13) | Losses need to be first set-off intra head (Sec 70), then inter head (Sec 71) and then they brought forward losses are to be set-off as per the provision of Sections 71B to 79. (i.e., Order in which losses shall be set-off is fixed) |

| | |
|-----|--|
| 14) | Losses of AOP, BOI and Firm: The loss of A.O.P. or B.O.I. or a Firm, which could not be set off intra head wise and inter head wise as per the provisions explained earlier, cannot be apportioned among the members/ partners and the members/partners are not entitled to set-off their share of loss from their personal incomes |
| 15) | Brought forward losses shall be set off in the immediately succeeding year or years |
| 16) | Set off of losses not permissible against unexplained income, investments, money etc. chargeable under sec 68/69. |
| 17) | Any loss incurred in the year in which the business was discontinued by the assessee shall be allowed to set off against the deemed profits & only the balance if any shall be taxed u/s 41(5) (In this situation 8 years limit is not applicable) |
| 18) | No difference between LTCL U/S 112 AND 112A |

ORDER OF PRIORITY FOR SET-OFF

| | |
|----|---|
| 1) | Current year depreciation |
| 2) | Current year capital expenditure on scientific research and current year expenditure on family planning, to the extent allowed. |
| 3) | Brought forward loss from business/profession [Section 72(1)] |
| 4) | Unabsorbed depreciation [Section 32(2)] |
| 5) | Unabsorbed capital expenditure on scientific research [Section 35(4)]. |
| 6) | Unabsorbed expenditure on family planning [Section 36(1)(ix)] |





11. DEDUCTIONS FROM GROSS TOTAL INCOME

- Chapter – VIA deductions are not available if assessee is paying taxes under default tax rates except Sec 80CCD (2), 80CCH(2) and 80JJAA
- Chapter- VIA deductions cannot exceed gross total income
- Chapter-VIA deductions are not deductible from LTCG u/s 112/112A, STCG u/s 111A and winnings from lotteries.

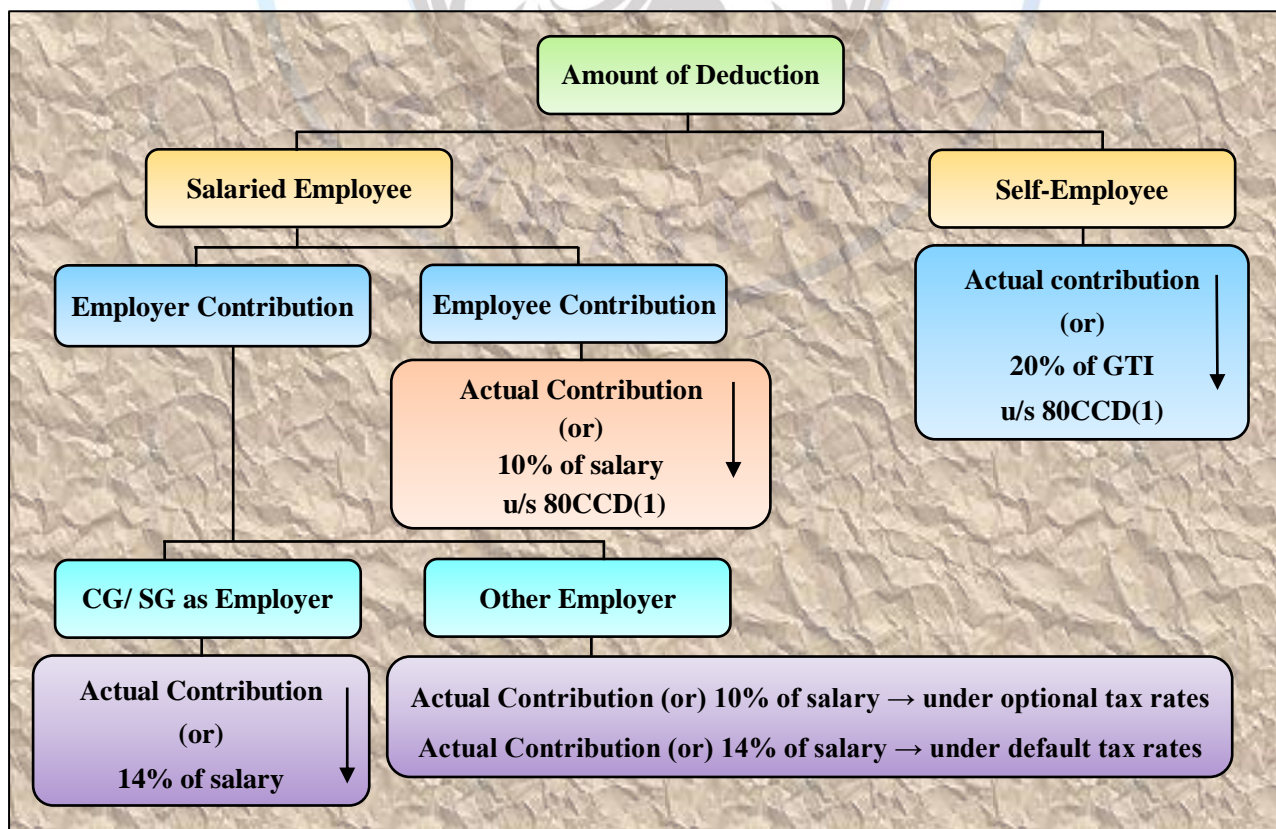
SECTION 80C: Specified Investments**Eligible assessee:** Individual & HUF**Maximum deduction allowed:** Rs. 1,50,000**Eligible Investment:**

| Sl. No. | Name Of The Investment / Payment | | | Payment Made By | |
|---------|---|---|--|----------------------------|-------------------------|
| | | | | Individual | HUF |
| 1) | Life insurance premium | | | Self, Spouse, child | Any member of HUF |
| | If Policy is taken before 01-04-2012 | If Policy is taken on or after 01-04-2012 | If Policy is taken on or after 01-04-2013 for person suffering with disability u/s 80U (or) specified disease u/s 80DDB | | |
| | Amount of Deduction = Premium Paid (or) 20% of sum assured ↓ | Amount of Deduction = Premium Paid (or) 10% of sum assured ↓ | Amount of Deduction = Premium Paid (or) 15% of sum assured ↓ | | |
| 2) | Employee's Contribution to statutory or recognized provident fund or superannuation fund. | | | Self | NA |
| 3) | Contribution to PPF (minimum ₹ 500, max ₹ 1,50,000 per account) | | | Self, Spouse, child | Any member of HUF |
| 4) | Subscription to Sukanya Samrddhi account. (Child includes girl child for whom such person is the legal guardian, if the scheme so specifies) | | | Girl child | Girl child |
| 5) | Subscription to national savings certificate (including interest accrued) | | | Self | NA |
| 6) | Subscription to unit link insurance plan of UTI/LIC | | | Self, Spouse, child | Any member of HUF |
| 7) | Contribution to annuity plans of insurance companies (Jeevan Dhara, Jeevan Akshay, of LIC, plans of TATA AIG life insurance co, etc. | | | Self, spouse, child | Any member of HUF |
| 8) | Subscription to units of mutual funds /UTI | | | Self | NA |
| 9) | Contribution to pension fund of mutual fund / UTI/ National housing bank | | | Self | NA |
| 10) | Tuition fees paid to university, college, school, or education institution located in India for full time education of children, other than donation or development fees. | | | Maximum two children | NA |

| | | | |
|-----|---|------|----|
| 11) | Repayment of loans taken from banks or financial institutions for purchase or construction of house Stamp duty, registration fees for acquisition of house property | Self | NA |
| 12) | Term deposit for at least 5 years with a scheduled bank [Focus point 3] | Self | NA |
| 13) | Subscription to notified NABARD Bonds | Self | NA |
| 14) | Deposits under senior citizen saving scheme | Self | NA |
| 15) | Fixed Deposit in scheduled bank or Post office for 5 years or more | Self | NA |
| 16) | Contribution to additional account [tier II account] of NPS in case of central government employee. | Self | NA |

SECTION 80CCC:**Eligible assessee:** Individual

Eligible Investment: Amount deposited in annuity plan of LIC or any other insurer
Interest or bonus credited to the assessee's account shall not be reckoned as contribution.

Maximum deduction allowed: 1,50,000**SECTION 80CCD:****Eligible Assessee:** Both salaried and self-employee**Eligible Investment:** Contribution to C.G pension scheme

NOTES:

- Salary for Sec 80CCD = Basic Salary + D.A (F.P.R.B)
- Employee contribution to C.G pension scheme can also be claimed as deduction u/s 80CCD(1B) up to Rs. 50,000.

Assessee can allocate his contribution first to either 80CCD(1) or 80CCD(1B), whichever is more beneficial to him.

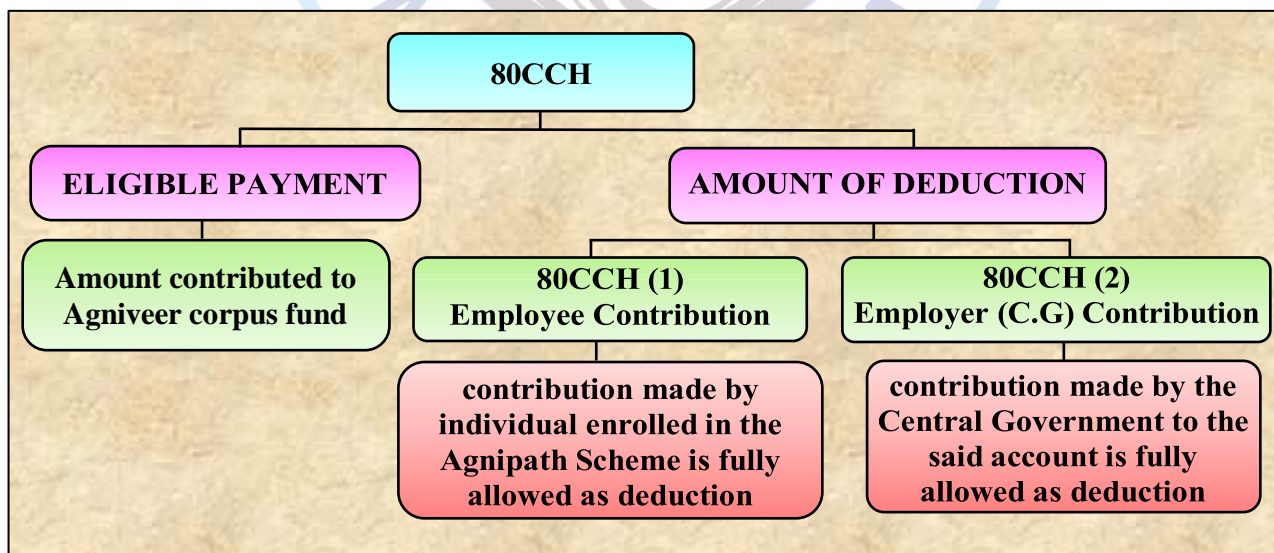
- Employer Contribution to C.G. pension scheme is first included in Gross salary and then deduction is allowed u/s 80CCD(2)

Deemed Income: If any deduction is claimed earlier and annuity plan is surrendered, amount received on such surrender (including interest or bonus) is taxable.

| Case | Taxability |
|--|-------------|
| a) Amount received by the assessee or nominee on closure of account or on his opting out of the NPS scheme. | 40% Taxable |
| b) On death of the assessee, amount received by nominee on closure of account or opting out of NPS scheme. | Exempt |
| c) Pension received out of NPS. | Taxable |
| d) Amount received on closure or opting out is utilized for purchasing an annuity plan in the same previous year. | Exempt |
| e) Pension received out of annuity plan purchased in (d) | Taxable |
| f) Partial withdrawal from NPS is fully exempt to the extent it does not exceed 25% of contributions made by assessee u/s 10(12B). | |

Sec 80CCE:

Aggregate deduction of [80C+80CCC+80CCD(1)] cannot exceed 1,50,000.

Sec 80CCH:**NOTE:**

- Deduction u/s 80CCH(2) is allowed under both tax rates
- C.G contribution is first included in gross salary and then deduction is allowed u/s 80CCH(2)

SECTION 80D:**Eligible assessee:** Individual or HUF (Whether R or NR)**Amount of Deduction:**

| Mode of payment | Payment | | Individual | | HUF |
|-----------------|-----------------------|--|----------------------------------|-----------------|-------------------|
| | | | Self, spouse, dependent children | Parents | Any member of HUF |
| Bank | 1) | Medical Insurance Premium | 25,000 / 50,000 | 25,000 / 50,000 | 25,000 / 50,000 |
| Bank | 2) | C.G. Health scheme | 25,000 / 50,000 | - | - |
| Cash/Bank | 3) | Preventive health check-up contribution. | 5,000 | 5,000 | - |
| Bank | 4) | Medical Expenses of senior / very senior citizen (only if medical insurance policy is not taken) | 50,000 | 50,000 | 50,000 |
| | Overall ceiling limit | | 25,000 / 50,000 | 25,000 / 50,000 | 25,000 / 50,000 |

- Aggregate deduction of preventive health checkup contribution for individual including family (i.e., Individual, spouse, dep. child & Parents) cannot exceed 5,000, subject to overall limit of 25,000/50,000.
- Where the assessee has paid the lumpsum premium for more than 1 year
- The deduction allowable under this section for each of the relevant previous year would be equal to the appropriate fraction of such lumpsum amount.

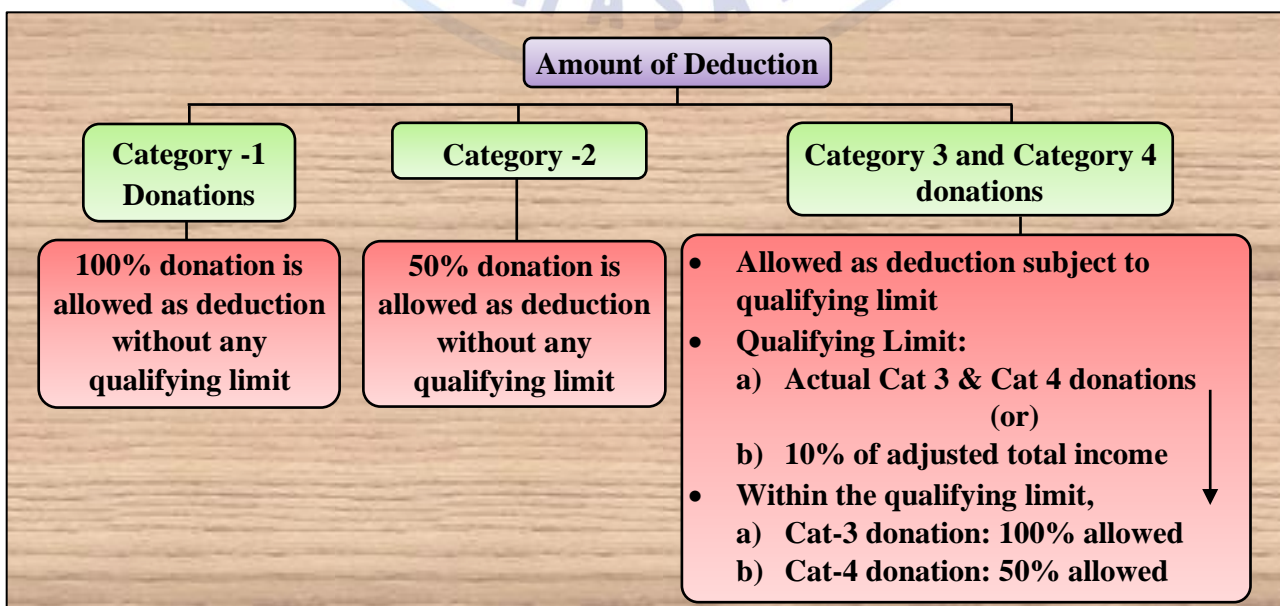
Meaning of certain terms:

| Term | Meaning |
|------------------------|--|
| Appropriate fraction | $1 \div \text{Total number of relevant previous years}$ |
| Relevant previous year | 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. |

SECTION 80G:**Eligible assessee:** Any assessee

| ELIGIBLE PAYMENTS U/S 80G: | |
|---|--|
| CATEGORY - I: <ol style="list-style-type: none"> PM's National Relief Fund and PM care fund. PM's Armenia Earthquake Relief Fund. The Africa (Public Contributions India) Fund. The National Foundation for communal Harmony. | CATEGORY - II: Donation to- <ol style="list-style-type: none"> PM's Drought Relief Fund. Jawaharlal Nehru Memorial Fund. Indira Gandhi Memorial Fund. Rajiv Gandhi Foundation |
| <ol style="list-style-type: none"> A University or any educational institution of national eminence as may be approved. The National Illness Assistance Fund. Any Zilla Saksharta Samiti for improvement of primary education in villages and towns. | CATEGORY - III: <ol style="list-style-type: none"> Contribution by a company as donations to the Indian Olympic association or to any Association notified by the central government u/s 10(23). |

| | |
|--|--|
| <p>8) Chief Minister's Earthquake Relief Fund, Maharashtra</p> <p>9) National Blood Transfusion Council or to any State Blood Transfusion Council.</p> <p>10) Any fund set up by State Government for medical Relief to the poor.</p> <p>11) The Army Central Welfare Fund or the Indian Naval Benevolent Fund or the Air force Central Welfare Fund established by the armed forces of the Union.</p> <p>12) The C.M.'s Relief Fund or the Lieutenant Governor's Relief Fund.</p> <p>13) The National sports fund set up by the Central Government.</p> <p>14) The Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996</p> <p>15) The National cultural fund set up by the Central Government.</p> <p>16) The Fund for Technology Department setup by the Central Government.</p> <p>17) The National Defense Fund set up by the Central Government</p> <p>18) Any fund set up by the Gujarat State Govt. exclusively for providing relief to the victims of earthquake in Gujarat.</p> <p>19) National trust for welfare of persons with Autism, Cerebral palsy, Mental retardation and Multiple Disabilities constituted under the relevant act of 1999.</p> <p>20) The National Children's Fund.</p> <p>21) The National Fund for Control of Drug Abuse constituted u/s 7A of the Narcotic Drugs & Psychotropic Substances Act, 1985.</p> <p>22) Swachh Bharat Kosh set up by the Central Government (See Focus point below)</p> <p>23) Clean Ganga Fund, set up by the Central Government, where such Assessee is a Resident (see Focus point below)</p> <p>24) Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM Cares Fund)</p> | <p>2) Government/local authority or approved association for promotion of family planning.</p> <p><u>CATEGORY- IV: Donation to</u></p> <p>1) Public charitable trusts/Institutions.</p> <p>2) Government or local authority to be used for any charitable purpose other than the purpose of promoting family planning.</p> <p>3) Any authority set up for providing housing accommodation or town planning.</p> <p>4) Any corporations of government for promoting interest of S.C./S.T./backward class.</p> <p>5) Renovation of notified temple, mosque, church, or Gurudwara.</p> |
|--|--|



NOTES:**Adjusted total income:**

| | |
|---|------|
| Gross Total Income | XXX |
| <u>Less:</u> LTCG u/s 112/112A | (XX) |
| <u>Less:</u> STCG u/s 111A | (XX) |
| <u>Less:</u> Chapter VI deductions except 80G | (XX) |
| Adjusted Total Income | XXX |

- Donation in kind is not allowed as deduction u/s 80G
- Up to Rs. 2000, donation should be given in any mode
- More than Rs. 2000, donation should be given by bank transaction only, else 100% donation is disallowed.
- Amount spent for C.S.R is not eligible for deduction u/s 80G

SECTION 80DD:

Eligible assessee: Resident Individual or Resident HUF

Eligible Expense:

- Amount spent for medical treatment of “dependent suffering with disability” (or)
- Amount paid to insurer under notified scheme for maintenance of “dependent suffering with disability”
- Dependent definition for Sec 80DD and 80DDB

| | Assessee | Dependent |
|----|------------|---|
| 1) | Individual | Spouse, Children, Parents, dependent brothers and sisters who did not claim deduction u/s 80U |
| 2) | HUF | a member of the HUF, wholly or mainly dependent on such HUF and not claimed deduction under section 80U |

Amount of Deduction:

- For Normal disability (40%-79%) – Rs. 75,000
- For Severe disability (80% or above)- Rs. 1,25,000

NOTES:

- The assessee claiming a deduction shall furnish a copy of the certificate issued by the medical authority along with ROI
- If disability requires re-assessment at a later date, new certificate is required to be submitted along with ROI
- If “dependent suffering with disability” dies before the assessee, amount received by assessee under the said scheme is chargeable in hands of assessee in the year of receipt
- Disability means blindness, low vision, leprosy, hearing impairment, locomotors disability (Disability of bones, joints, muscles), mental retardation, autism, cerebral palsy and multiple disabilities.

SECTION 80U:**Eligible assessee:** Resident Individual

If assessee himself is suffering with disability, he can claim deduction u/s 80U

AMOUNT OF DEDUCTION:

- For Normal disability (40%-79%) – Rs. 75,000
- For Severe disability (80% or above)- Rs. 1,25,000

a,b,d note points of Sec 80DD are also applicable to Sec 80U

SECTION 80DDB:**Eligible assessee:** Resident Individual and Resident HUF**Eligible Payment:** Amount spent for treatment of specified diseases covered in Rule 11DD for himself or any of his dependent**Amount of deduction:**

- In case of Senior Citizen (or) Very Senior Citizen
 - a) Actual Medical Expense (or) 1,00,000 ↓
- In case of other citizens
 - a) Actual Medical Expense (or) 40,000 ↓

NOTES:

a) If any amount of medical expense is reimbursed by insurance company or employer, such amount shall be reduced from deduction amount.

b) **Specified Diseases as Per Rule 11DD:**

- | | |
|---------------------------|---------------------------|
| i) Cancer | iv) Chronic Renal Failure |
| ii) Neurological Diseases | v) Haemophilia and |
| iii) AIDS | vi) Thalassemia |

SECTION 80GG:**Eligible assessee:** Individual (Salaried or self- employee) who is not receiving HRA and is paying rent for residential accommodation occupied by him**CONDITIONS:**

- The assessee or his spouse or minor child or HUF in which he is a member, should not own any residential accommodation at that place where he ordinarily resides or perform duties of his office or employment or carries on his business or profession.
- No claim for SOP should be made in respect of any other accommodation

Amount of Deduction:

- a) Rent paid – 10% of ATI (or)
- b) 25% of ATI (or)
- c) 5,000 p.m.



Adjusted total income:

| | |
|---|------|
| Gross Total Income | XXX |
| <u>Less:</u> LTCG u/s 112/112A | (XX) |
| <u>Less:</u> STCG u/s 111A | (XX) |
| <u>Less:</u> Chapter VI deductions except 80GG | (XX) |
| Adjusted Total Income | XXX |

SECTION 80GGA:

Eligible assessee: All assesses who are not having PGBP income

Eligible Payments:

- Contribution to approved research association, university or college to be used for scientific or social or statistical research
- To an association or institution which has as its object the undertaking of any rural development program or training of persons for implementing rural development programmes
- To National Urban Poverty Eradication Fund
- Any sum paid to a rural development fund set up and notified under section 35CCA
- Any sum paid to a public sector company or a local authority or to an association or institution for carrying out any eligible project or scheme.

Amount of Deduction:

100% of donation is allowed as deduction

NOTES:

- If donation exceeds 2,000, it should be paid by way of bank transaction, else 100% donation is disallowed.
- It has been clarified that deduction shall not be denied merely on the ground that subsequent to payment of such sum by the assessee, the approval granted to any of the aforesaid entities is withdrawn.

SECTION 80GGB:

Eligible assessee: Indian Company

Eligible Payment:

Donation given to

- Political party registered under Representation of People Act, 1951 (or)
- Electoral Trust

Amount of deduction = 100% of donation given by way of bank transaction

SECTION 80GGC:

Eligible assessee: Any Person

Eligible Payment:

Donation given to

- a) Political party registered under Representation of People Act, 1951 (or)
- b) Electoral Trust

Amount of deduction = 100% of donation given by way of bank transaction

NOTE:

- This deduction will, however, not be available to a local authority and an artificial juridical person, wholly or partly funded by the Government.
- A co-operative society will not be eligible for deduction if it opts for special provisions of section 115BAD/115BAE

SECTION 80E:

Eligible assessee: Individual

Eligible Payment: *Interest* on loan taken for higher education for assessee or any of the relative

Relative means the spouse and children and any other student to whom the assessee is acting as a guardian

CONDITIONS:

- The loan must have been taken from any financial institution or approved charitable institution
- Amount paid must be out of income chargeable to tax.
- Education may be full time or part time (or) In India or outside India

Period of deduction:

- Deduction will be allowed from initial year of repayment
- Deduction is allowed-
 - a) For 8 continuous years from initial year of repayment (or)
 - b) Until loan is fully repaid

Whichever is earlier

SECTION 80EE:

Eligible assessee: Individual

Eligible Payment: Interest on loan taken for acquisition of RHP from any financial institution

CONDITIONS:

- a) Loan should be sanctioned during P.Y 16-17
- b) Value of RHP < 50 lakhs
- c) Value of loan sanctioned < 35 lakhs
- d) Assessee should not own any other RHP on date of sanction of loan

Amount of Deduction = 50,000

NOTE: This deduction is over and above the deduction of ₹2,00,000 available under section 24 for SOP/UOP

Period of deduction: Till the repayment of loan

SECTION 80EEA:

Eligible assessee: Individual

Eligible Payment: Interest on loan taken for acquisition of RHP from any financial institution

CONDITIONS:

- a) Loan should be sanctioned in between P.Y 19-20 to P.Y 21-22
- b) SDV of RHP < 45 lakhs
- c) The individual should not be eligible to claim deduction u/s 80EE
- d) Assessee should not own any other RHP on date of sanction of loan

Amount of Deduction = 1,50,000

NOTE: This deduction is over and above the deduction of ₹2,00,000 available under section 24 for SOP/UOP

Period of deduction: Till the repayment of loan

SECTION 80EEB:

Eligible assessee: Individual

Eligible Payment: Interest on loan taken for purchase of electric vehicle

CONDITIONS:

- Loan should be sanctioned in between P.Y 19-20 to P.Y 22-23
- Loan should be sanctioned by a FI (bank or specified NBFCs)

Amount of Deduction: 1,50,000

Period of Deduction: Till the repayment of loan

SECTION 80TTA:

Eligible assessee: Individual (irrespective of residential status and age limit)

Eligible Income: Assessee's gross total income includes income by way of interest on deposits in savings account with:

- a) A banking company.
- b) A co-operative society engaged in banking business
- c) A Post Office

CONDITIONS:

- 1) No deduction shall be allowed if deposits held by partner/member on behalf of P. Firm/AOP/BOI.
- 2) Deduction under this section is not available to a resident senior citizen eligible for deduction under section 80TTB
- 3) Amount of deduction: Actual interest income (or) 10,000, whichever is lower

NOTE: Post office savings bank interest is exempt up to ₹3,500 (in an individual account) and ₹7,000 (in a joint account) u/s 10(15) (i.e., Dual benefits available)

SECTION 80TTB: Resident Senior Citizen

Eligible Income: Assessee's gross total income includes income by way of interest on deposits in Savings Bank deposits / Fixed deposits and Recurring deposits with:

- a) A Banking Company.
- b) A Co-operative society engaged in banking business.
- c) A Post Office

CONDITIONS:

- No deduction shall be allowed if deposits held by partner/member on behalf of P. Firm/AOP/BOI.

Amount of deduction: Actual interest income (or) 50,000, whichever is lower

NOTE: Post office savings bank interest is exempt up to ₹3,500 (in an individual account) and ₹7,000 (in a joint account) u/s 10(15) (i.e., Dual benefits available)

SECTION 80QQB:

Eligible assessee: Resident Individual being an author including joint author

Eligible Income: Royalty income or copyright fees received for books of artistic, scientific or literary in nature

CONDITIONS:

- Deduction not available in respect of royalty income from textbook for schools, guides, commentaries, newspapers, journals, pamphlets and other publications of similar nature.
- The assessee shall have to furnish a certificate duly verified by the person responsible for making such payment.

Amount of Deduction:**For lumpsum Royalty:**

| | | |
|-----------------------|---|---|
| Deduction u/s 80QQB = | Lumpsum royalty received | ↓ |
| | (or) | |
| | 3,00,000 | |
| | (or) | |
| | Royalty earned outside India brought to India in convertible foreign exchange within 6 months from end of P.Y | |

For Percentage based royalty:

| | | | | |
|-----------------------|---|---|---|---------------------------------------|
| Deduction u/s 80QQB = | Actual royalty % received | ↓ | – | Expenses incurred for earning royalty |
| | (or) | | | |
| | 15% Royalty | | | |
| | (or) | | | |
| | Royalty earned outside India brought to India in convertible foreign exchange within 6 months from end of P.Y | | | |

QUESTION:

Mr. Thanmay earned royalty of Rs. 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was Rs. 40,000. The amount remitted to India till 30th September, 2025 is Rs. 2,30,000. The remaining amount was not remitted till 31st March, 2026. Compute the amount includible in the gross total income of Mr. Thanmay and the amount of deduction which he will be eligible for under section 80QQB if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWER: Will be discussed in the lecture

Section 80RRB:

Eligible assessee: Resident individual being a patent owner including co-owner

Eligible Income: Patent fees received for use of a patent or rendering of any services in connection with these activities

NOTE: The exemption shall not be available on any consideration for sale of product manufactured with the use of the patented process or patented article for commercial use.

Amount of Deduction:

| | | |
|-----------------------|---|---|
| Deduction u/s 80RRB = | Actual Patent fees received | ↓ |
| | (or) | |
| | 3,00,000 | |
| | (or) | |
| | Patent fees earned outside India brought to India in convertible foreign exchange within 6 months from end of P.Y | |

SECTION 80JJAA: Deduction in Respect of Employment of New Employees**A) APPLICABILITY:**

- Assesses to whom Sec 44AB is applies (i.e., those required to get their accounts audited).
- The deduction applies to profits and gains from business (not applicable to professionals).

B) QUANTUM & PERIOD OF DEDUCTION

- Deduction = 30% of Additional Employee Cost
- Allowed for 3 **consecutive** assessment years, including the year in which the employment is provided.

C) CONDITIONS TO CLAIM THE DEDUCTION

1. Business Should Not Be
 - Formed by splitting up or reconstructing an existing business.
 - Acquired through a transfer from another person or due to business reorganization.
2. Employees Must Be Paid Through Banking Channels (Cheque, NEFT, UPI, etc.).
3. Employees Must Work for At Least 240 Days in a Year (150 days for the apparel, footwear, and leather industries).
 - If an employee works less than 240 days but continues in the next year, the deduction applies from the next year

D) IMPORTANT DEFINITIONS

| Term | Meaning |
|--|---|
| Additional Employee Cost | Total emoluments paid to additional employees hired during the year. |
| Additional Employee | An employee hired in the current year, increasing the total employee count. |
| Emoluments (Salary Components Allowed) | Any sum paid to an employee excluding employer contributions to PF/pension and lump-sum retirement benefits |

E) EMPLOYEES EXCLUDED FROM DEDUCTION

- Employees earning more than ₹25,000 per month
- Employees whose PF contributions are fully paid by the Government
- Employees who do not participate in a recognized provident fund
- Employees working for less than 240 days (150 days for apparel/footwear/leather industries)
- 80JJAA benefit is available under both tax regimes
- 80JJAA can be claimed in year of commencement or in later years

QUESTION:

Mr. A has commenced the business of manufacture of computers on 1.4.2024. He employed 350 new employees during the P.Y. 2024-25, the details of whom are as follows –

| | No. of employees | Date of employment | Regular/ Casual | Total monthly emoluments per employee (Rs.) |
|-------|------------------|--------------------|-----------------|---|
| (i) | 75 | 1.4.2024 | Regular | 24,000 |
| (ii) | 125 | 1.5.2024 | Regular | 26,000 |
| (iii) | 50 | 1.8.2024 | Casual | 24,500 |
| (iv) | 100 | 1.9.2024 | 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. 2025-26, if the profits and gains derived from manufacture of computers that year is Rs. 75 lakhs and his total turnover is Rs. 10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2024?

ANSWER:

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2025-26 and he has employed “additional employees” during the P.Y. 2024-25.

A) If Mr. A is engaged in the business of manufacture of computers

$$\begin{aligned}
 \text{Additional employee cost} &= \text{Rs. } 24,000 \times 12 \times 75 \text{ [See Working Note below]} \\
 &= \text{Rs. } 2,16,00,000 \\
 \text{Deduction under section 80JJAA} &= 30\% \text{ of Rs. } 2,16,00,000 \\
 &= \text{Rs. } 64,80,000.
 \end{aligned}$$

WORKING NOTE:

Number of additional employees

| Particulars | No. of workmen | |
|---|----------------|-----|
| Total number of employees employed during the year | | 350 |
| Less: Casual employees employed on 1.8.2024 who do not participate in recognized provident fund | 50 | |
| Regular employees employed on 1.5.2024, since their total monthly emoluments exceed Rs. 25,000 | 125 | |
| Regular employees employed on 1.9.2024 since they have been employed for less than 240 days in the P.Y.2024-25. | 100 | 275 |
| Number of “additional employees” | | 75 |

NOTES:

- Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2024 also do not qualify as additional employees since their monthly emoluments exceed Rs. 25,000. Also, 100 regular employees employed on 1.9.2024 do not qualify as additional employees for the P.Y.2024-25, since they are employed for less than 240 days in that year.

11. Deductions from GTI

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Therefore, only 75 employees employed on 1.4.2024 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2024-25 is deemed to be the additional employee cost.

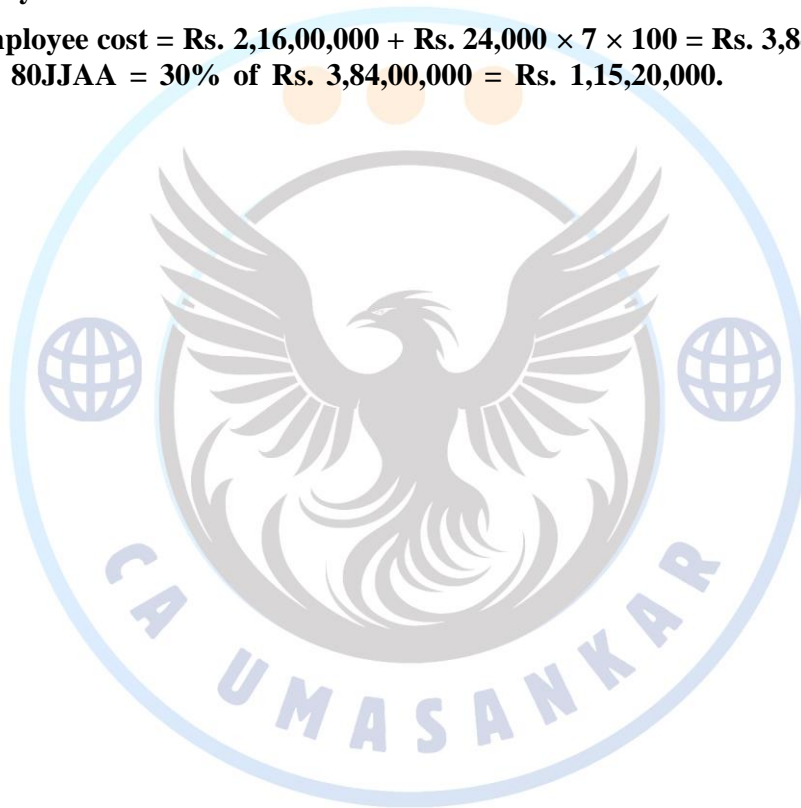
- 2) As regards 100 regular employees employed on 1.9.2024, they would be treated as additional employees for previous year 2025-26, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. A for the A.Y. 2026-27.

B) If Mr. A is engaged in the business of manufacture of footwear

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of

regular employees employed on 1.9.2024, since they have been employed for more than 150 days in the previous year 2024-25.

Additional employee cost = Rs. 2,16,00,000 + Rs. 24,000 \times 7 \times 100 = Rs. 3,84,00,000
Deduction under section 80JJAA = 30% of Rs. 3,84,00,000 = Rs. 1,15,20,000.



12. TAX DEDUCTED AT SOURCE AND TAX COLLECTED AT SOURCE (TDS & TCS)

| Sec. | Payment | Threshold limit | Payer | Payee | Rate of TDS | Time of deduction | Exemptions / exceptions |
|------|---------|-----------------------|------------|------------|--|------------------------|---|
| 192 | Salary | Basic exemption limit | Any person | Individual | Average rate of Income tax computed on the basis of the rates in force | At the time of Payment | Allowances to the extent exempt under section 10, and exempted perquisites would be excluded. |

NOTE POINTS:

- Generally, employer deducts TDS under default tax rates. However, if employee gives intimation to deduct TDS under optional tax rates, then employer will deduct accordingly.
- Deduction of tax at source should be made after allowing relief u/s 89(1), where eligible.
- During CPY, if employee joins in a new organization, then he may furnish details of salary provided and TDS deducted by previous employer in Form 12B to the new employer. New employer will deduct TDS considering such information.
- Average rate of income-tax means the rate arrived at by dividing the amount of income-tax calculated on the total income, by such total income.
- Employer has to obtain following particulars following evidence/ proof for estimating T.I of employee and for estimating TDS to be deducted

| S. No. | Nature of Claim | Evidence or particulars |
|--------|---|--|
| 1) | House Rent Allowance | Name, address and PAN of the landlord(s) where the aggregate rent paid during the previous year exceeds Rs.1 lakh. |
| 2) | Leave Travel Concession or Assistance | Evidence of expenditure |
| 3) | Deduction of interest under the head "Income from house property" | Name, address and PAN of the lender |
| 4) | Deduction Chapter VI-A under | Evidence of expenditure or investment |

| | | | | | | | |
|------|--|---|---|--------------|-------------------------------------|---|--|
| 192A | Premature withdrawal from Employees provident fund | Payment or aggregate payment < ₹ 50,000 | Trustees of EPF or any Authorized person. | Individual | 10% on premature taxable withdrawal | At the time of Payment | <ol style="list-style-type: none"> Withdrawal after continuous service of 5 years In case of withdrawal before continuous service of 5 years and – <ol style="list-style-type: none"> Employee opts for transfer of accumulated balance to the new employer (or) Termination is due to ill health, contraction or discontinuance of employer's business, cessation of employment etc. |
| 193 | Interest on securities | | Any person | Any Resident | 10% | Date of credit entry in books (or) Date of Payment, whichever is earlier. | |

| Sec. | Payment | Threshold limit | Payer | Payee | Rate of TDS | Time of deduction | Exemptions / exceptions |
|---|--|--|---|-----------------------|-------------|---|--|
| NOTE POINTS: No TDS if Interest is paid - 1) To an Individual/ HUF on debentures issued by public company, where interest does not exceed 5,000 during P.Y and paid by a/c payee cheque. 2) To LIC, GIC or any other insurers 3) On 7-year National Savings Certificates (IV Issue) 4) On National Development Bonds 5) On bonds issued by P.F.C.L or L.R.F.C.L (eligible for exemption u/s 54EC) 6) On Govt Securities except a) Interest on 8% Savings (Taxable) bonds, 2003 (or) b) Interest on 7.75% Savings (Taxable) bonds, 2018 (or) c) Floating rate savings bonds, 2020 (W.E.F 01-Oct-2024) Where interest amount is \leq 10K. If interest > 10,000 on above 3 securities, then TDS is applicable. | | | | | | | |
| 194 | Dividend (including dividend on preference shares) | 1) 5,000 – In case dividend paid to individual by any mode other than cash in a P.Y. 2) No threshold in other cases | The principal officer of a company | Resident share holder | 10% | At the time of payment | No TDS if dividend is paid to LIC, GIC or any other insurer, provided the shares are owned by them or they have full beneficial interest in such shares. |
| 194A | Interest other than interest on securities | 40,000 – If interest on F.D or R.D is paid by bank/ post-office/ co-operative bank. (50,000 for resident senior citizen) 5,000 – If interest is paid by any other person NOTE: Generally, 40k/50k limit will be computed per branch. However, where bank has adopted Core Banking Solution (CBS), 40k/50k limit shall be computed for bank as a whole and not per branch. | Any person except Ind/HUF NOTE: Individual / HUF whose T/O during the preceding F.Y. exceed 1Cr for business. (50L in case of profession) are required to deduct TDS in C.P. Y | Any Resident | 10% | Date of credit entry in books (or) Date of Payment, whichever is earlier. | 1) Interest on Income Tax refund 2) Interest on Bank Savings A/c 3) Interest paid to any Bank/Co-operative banks/LIC/UTI/Any Insurer/ National skill development fund/ Housing and urban development corporation. 4) Interest paid by Co-op society (other than Co-op Bank) to its members or to any other Co-operative society. 5) Interest on zero coupon bonds 6) Interest paid by co-operative bank to another co-operative society 7) Interest paid or credited by firm to its partners. 8) Interest credited on the compensation amount awarded by the Motor Accidents Claims Tribunal. 9) Interest on compensation awarded by the Motor Accidents Claims Tribunal paid during the F.Y does not exceed Rs. 50,000. |
| NOTE POINTS: 1) Provisions of section 194A do not apply to fixed deposits made in the name of Registrar General of the Court. 2) In case of minors where both the parents have deceased, TDS on the interest income accrued to the minor is required to be deducted and reported against PAN of the minor child unless a declaration is filed under Rule 37BA(2) that credit for tax deducted has to be given to another person. 3) TDS on interest on amount deposited in CGAS, where the depositor has deceased <ul style="list-style-type: none"> On interest accrued up to death of depositor, TDS is required to be deducted against PAN of depositor, and On interest accrued after death of depositor, TDS is required to be deducted against PAN of legal heir, unless a declaration is filed under Rule 37BA (2) that credit for tax deducted has to be given to another person. | | | | | | | |

| Sec. | Payment | Threshold limit | Payer | Payee | Rate of TDS | Time of deduction | Exemptions / exceptions |
|------|---|---|------------|------------|-------------|------------------------|-------------------------|
| 194B | All winnings [other than winnings from horse races and net winnings from online game] | If winning is \leq ₹ 10,000 in a F. Y | Any Person | Any Person | 30% | At the time of Payment | Nil |

NOTE POINTS:

- Where the net winnings are wholly in kind (or) partly in cash and partly in kind but the part in cash is not sufficient to meet the liability of TDS, payer shall release prize only after ensuring tax has been paid to govt on such winnings. **[APPLICABLE TO SEC.194B, 194BA, 194BB]**
- Where a certain percentage has to be forgone either in favour of Government or an agency conducting lotteries, then such portion is not subject to deduction of tax at source.
- If prize money is paid in instalments, then tax shall be deducted at the time of payment of each instalment.

| | | | | | | | |
|-------|----------------------------|--|------------|------------|---|---|-----|
| 194BA | Winnings from online games | On the net winnings in a person's user account as computed in prescribed manner. | Any person | Any person | 30% (If the winning is in kind then the value equal to Fair value/ Purchases value/price charged to customer) | At the time of withdrawal from user account (or) At the end of the F.Y. | NIL |
|-------|----------------------------|--|------------|------------|---|---|-----|

NOTE POINTS:

Question 1: There are a large number of gamers who play with very insignificant amount and withdraw also very small amount. Deducting tax at source under section 194BA for each insignificant withdrawal would increase compliance for tax deductor. Can there be relaxation to ease compliance?

Answer: Tax may not be deducted on withdrawal on satisfaction of all of the following conditions, namely:

- Net winnings comprised in the amount withdrawn does not exceed Rs. 100 in a month;
- Tax not deducted on account of this concession is deducted at a time when the net winnings comprised in withdrawal exceeds Rs. 100 in the same month or subsequent month or if there is no such withdrawal, at the end of the financial year; and
- The deductor undertakes responsibility of paying the difference if the balance in the user account at the time of tax deduction under section 194BA is not sufficient to discharge the tax deduction liability.

| | | | | | | | |
|-------|--|--|--------------|--------------|---|---|--|
| 194BB | Winnings from horse race | If winning is \leq ₹10,000 in a F.Y | Any Person | Any Person | 30% | At the time of Payment | |
| 194C | Payments to Contractors (OR) sub-contractors for carrying out any works contract including supply of labour. | Single sum \leq ₹30,000 (or) Aggregate sums during the F.Y. \leq ₹1,00,000 | Same as 194A | Any Resident | Contractor: Individual (or) HUF – 1% Others – 2% | Date of credit entry in books (or) Date of Payment, whichever is earlier. | a) Amount paid to transporter owning less than 10 vehicles at any time during P.Y and who furnishes his PAN. b) Amount paid exclusively for personal purposes of individual or HUF. |

| Sec. | Payment | Threshold limit | Payer | Payee | Rate of TDS | Time of deduction | Exemptions / exceptions |
|------|---------|-----------------|-------|-------|-------------|-------------------|-------------------------|
|------|---------|-----------------|-------|-------|-------------|-------------------|-------------------------|

NOTE POINTS:**1) Works Contract -****Includes:**

- Advertising.
- Broadcasting and telecasting including production of programs for such broadcasting or telecasting.
- Carriage of goods or passengers by any mode of transport other than by railways.
- Catering.
- Manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer or from customer's associate covered u/s 40A(2)(b) [job work].

Excludes:

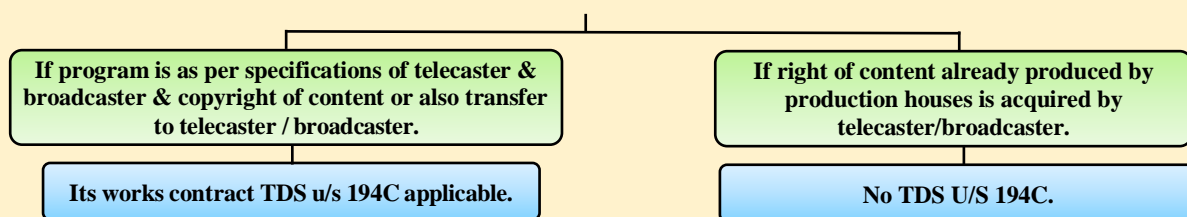
- Manufacturing or supplying a product as per requirement or specification of a customer by using raw material purchased from any person, other than such customer/ his associate (as it is "Contract of Sale")

Exception: Construction Contract

- W.E.F 1.10.2024, it is clarified that "work" shall also not include any sum referred to in section 194J(1).

2) If value of material taken from customer/ his associate is mentioned separately in invoice, TDS will be deducted on invoice value excluding material.

Otherwise, TDS will be deducted on entire invoice value.

3) In case the Owner/Seller of the natural gas sells as well as transports the gas to the purchaser till the point of delivery, no TDS u/s 194C.**4) Payment made by TV channel/ broad casters to production house for production of content program.**

| | | | | | | | |
|-------|---------------------------------------|--|------------|--------------|---|---|---|
| 194D | Insurance Commission | If commission is ≤ 15,000 in a F. Y | Any person | Any Resident | 5% - if the payee is non-corporate resident. 10%, if the payee is domestic company | Date of credit entry in books (or) Date of Payment, whichever is earlier. | Nil |
| 194DA | Any sum under a Life Insurance Policy | Aggregate amount of payment to a payee in a financial year is less than Rs. 1 lakh | Any Person | Any Resident | 5% (2%- W.E.F 01-10-2024) | At the time of Payment | Sums which are exempt under section 10(10D) |

NOTE POINTS: TDS shall be made on Income component [i.e., maturity amount less aggregate premium paid].

| | | | | | | | |
|------|---|--|--------------|--------------|---------------------------|---|--|
| 194G | Any income by way of Prize/ Commission/ Remuneration on Sale of lottery tickets | If such commission is ≤ 15,000 in a F.Y. | Any person | Any person | 5% (2%- W.E.F 01-10-2024) | Date of credit entry in books (or) Date of Payment, whichever is earlier. | Nil |
| 194H | Commission or Brokerage other than insurance commission | ≤ ₹ 15,000 in a F.Y. | Same as 194A | Any Resident | 5% (2%- W.E.F 01-10-2024) | Date of credit entry in books (or) Date of Payment, whichever is earlier. | Commission or brokerage payable by BSNL or MTNL to their Public Call Office franchisees. |

| Sec. | Payment | Threshold limit | Payer | Payee | Rate of TDS | Time of deduction | Exemptions / exceptions |
|------|---------|-----------------|-------|-------|-------------|-------------------|-------------------------|
|------|---------|-----------------|-------|-------|-------------|-------------------|-------------------------|

NOTE POINTS:

- 1) Payment made by TV channel/ newspaper co. to Advt. agency for booking procuring/ canvassing for Advertisement Payment is treated as discount & not commission so TDS u/s 194H not applicable.
- 2) This section is not applicable to professional services.

| | | | | | | | |
|-------|---|---|--------------|--------------|---|---|--------------------------------|
| 194-I | Rent for land/ building/ P&M/ Furniture. (Whether or not owned by payee) | If Rent \leq 2,40,000 per anum. NOTE: If property is under co-ownership, ₹ 2,40,000 limit is applied to each Co-owner | Same as 194A | Any Resident | 2% For P & M (or) equipment 10% For land, building, furniture or fixtures etc. | Date of credit entry in books (or) Date of Payment, whichever is earlier. | No TDS on refundable deposits. |
|-------|---|---|--------------|--------------|---|---|--------------------------------|

NOTE POINTS:

- 1) The provisions of 194-I are not applicable to the cooling charges paid by the customers of the cold storage. However, since the arrangement between the customers and cold storage owners are basically contractual in nature, the provision of section 194-C will be applicable to the amounts paid as cooling charges by the customers of the cold storage.
- 2) No requirement to deduct tax at source under section 194-I on remittance of Passenger Service Fees (PSF) by an Airline to an Airport Operator. The primary requirement of any payment to qualify as rent is that the payment must be for the use of land and building.
- 3) Lump sum lease premium or one-time upfront lease charges, which are not adjustable against periodic rent, paid or payable for acquisition of long-term leasehold rights over land or any other property are not payments in the nature of rent within the meaning of section 194-I. Therefore, such payments are not liable for TDS under section 194-I.

| | | | | | | | |
|--------|---|--|--|---------------------|-------------------|---|---|
| 194-IA | Transfer of any immovable property other than rural agricultural land | Less than ₹50 lakhs (Actual consideration and SDV) | Any person (Other than person referred in Se.194 LA) | Resident Transferor | 1% of SDV (or) AC | Date of credit entry in books (or) Date of Payment, whichever is earlier. | Payment for transfer of rural agricultural land |
|--------|---|--|--|---------------------|-------------------|---|---|

NOTE POINTS:

- 1) If consideration is ₹50 Lakhs or more and only part payment is made, then TDS is applicable on every part payment of consideration.
- 2) Consideration shall include all charges of the nature of club membership fee, car parking fee, electricity or water facility fee, maintenance fee, advance fee or any other charges of similar nature, which are incidental to transfer of the immovable property.
- 3) W.E.F 01-10-2024, Where there is more than one transferor or transferee in respect of any immovable property, then the consideration (for calculating threshold limit) shall be the aggregate of amounts paid or payable by all the transferees to the transferor or all the transferors for transfer of such immovable property.

| | | | | | | | |
|--------|-----------------------------|---|--|--------------|---------------------------|--|-----|
| 194-IB | Rent for immovable property | Less than or equal to 50,000 for a month or part of a month | Individual or HUF, whose turnover during the preceding previous year does not exceed ₹1Cr. for Business/ ₹50L for Profession | Any Resident | 5% (2%- W.E.F 01-10-2024) | <u>Earlier of the following:</u> 1) At the time of credit of rent, a) For the last month of the previous year or b) The last month of tenancy if the property is vacated during the year. (Or) 2) At the time of payment. | Nil |
|--------|-----------------------------|---|--|--------------|---------------------------|--|-----|

NOTE POINTS:

Where the tax is required to be deducted as per the provisions of section 206AA, such deduction shall not exceed the amount of rent payable for the last month of the previous year or the last month of the tenancy, as the case may be.

| Sec. | Payment | Threshold limit | Payer | Payee | Rate of TDS | Time of deduction | Exemptions / exceptions |
|--|---|---|--|--------------|--|---|---|
| 194J | 1) Fees for professional Services 2) Fee for technical Services 3) Royalty 4) Non-compete Fee. 5) Remuneration to director. | Does not exceed ₹ 30,000 in a F.Y., for each category of income. (No limit for director remuneration) | Any person except Ind/HUF NOTE: Individual and HUF whose turnover during the preceding F.Y. exceed 1Cr for business. (50L in case of profession) is required to deduct TDS in current P.Y) | Any Resident | Payee engaged in the business of operation of call center - 2% Royalty on sale or distribution or exhibition of cinematographic films - 2% Fee for technical services - 2% In all other cases – 10% | Date of credit entry in books (or) Date of Payment, whichever is earlier. | No TDS professional fees paid exclusively for personal purposes of individual or any member of HUF. |
| NOTE POINTS: <ul style="list-style-type: none"> Individual and HUF are not required to deduct tax from Royalty, Non-compete fee even if payment is more than T.L. Third Party Administrator's making payment on behalf of insurance companies to hospitals are liable to deduct TDS u/s 194J. The CBDT has notified the services rendered by following persons in relation to the sports activities as Professional Services for the purpose of the section 194J: Sports Persons, Umpires and Referees, Coaches and Trainers, Team Physicians and Physiotherapists, Event Managers, Commentators, Anchors and Sports Columnists. | | | | | | | |
| 194K | Income on units | If payment ≤ ₹5,000 in a F.Y | Any person | Any Resident | 10% | Date of credit entry in books (or) Date of Payment, whichever is earlier. | The income is of the nature of capital gain |
| 194LA | Compensation / Enhanced compensation on compulsory acquisition of any immovable property | Agg Compensation ≤ 2,50,000 in a F.Y. | Any person | Any Resident | 10% | At the time of Payment | Compensation on acquisition of agricultural land in India (urban/rural). |
| 194M | 1) Works contract 2) Commission or Brokerage (not being referred to in section 194D) 3) Fees for professional services | Aggregate sums for all 3 payments during F.Y does not exceed 50,00,000 | Individual /HUF who are not required to deduct TDS u/s 194C/ 194H / 194J | Any Resident | 5% (2%- W.E.F 01-10-2024) | Date of credit entry in books (or) Date of Payment, whichever is earlier. | |

| Sec. | Payment | Threshold limit | Payer | Payee | Rate of TDS | Time of deduction | Exemptions / exceptions |
|------|-----------------|--|--|------------|---------------------------------|------------------------|--|
| 194N | Cash withdrawal | <ul style="list-style-type: none"> Up to 3 crores- if amount is withdrawn by co-operative society from one or more accounts, during P.Y. 1 Cr – In other cases | <ul style="list-style-type: none"> Bank Post-office Co-operative bank | Any Person | 2% on sum exceeding ₹ 1 Cr /3cr | At the time of Payment | <u>TDS is not applicable if payee is:</u> <ol style="list-style-type: none"> The Government Any banking company or co-operative society or a post-office Business correspondent of a banking company or co-operative bank White label ATM operator Any other notified person |

NOTE POINTS:

If payee has not filed ITR for all of the 3 preceding previous years for which due date u/s 139(1) has expired, then TDS shall be deducted as follows:

- Cash withdrawn more than Rs 20 Lakhs but up to 1 Crore: 2%
- Cash withdrawn more than 1 crore: 5%

| | | | | | | | |
|------|---|---|-----------------|--------------------------|---|------------------------|--|
| 194P | Total income of specified senior citizen. (i.e., Pension along with interest) | Basic exemption limit (₹3,00,000/ ₹5,00,000 in case of optout) (3,00,000 in case of default u/s 115BAC) | Specified bank. | Specified Senior citizen | Slab rates [Rates in force i.e., Default or optout] | At the time of Payment | |
|------|---|---|-----------------|--------------------------|---|------------------------|--|

NOTE POINTS:

- EXEMPTION FROM FILING RETURN OF INCOME:** The specified senior citizen is exempted from filing his return of income for the assessment year relevant to the previous year in which the tax has been deducted under this section.
- Total income of specified senior citizen for the relevant assessment year, shall be computed after giving effect to - Deduction allowable under Chapter VI-A; and Rebate allowable under section 87A

3) **MEANING OF CERTAIN TERMS:**

Specified senior citizen;

Conditions:

- An individual, being a resident in India, who
- Is of the age of 75 years or more at any time during the previous year;
- Is having pension income [Also, he should have no other income except interest income received or receivable from any account maintained by such individual in the same specified bank in which he is receiving his pension income]; and
- Has furnished a declaration to the specified bank containing such particulars, in the prescribed form and verified in the prescribed manner.

Specified bank: A banking company as notified by the Central Government.

| | | | | | | | |
|------|-----------------------|---|---|-----------------|---|--|---|
| 194Q | Purchase of any goods | More than ₹ 50 lakhs in a previous year | Buyer whose turnover during preceding F.Y > 10 crores | Resident seller | 0.1% in excess of ₹50 lakhs, when PAN is provided. 5% in excess of ₹50 lakhs, if PAN is not provided | Date of credit entry in books (or) Date of Payment, whichever is earlier | Purchase of goods from any person who is (i.e., seller) exempt from tax under income tax act (This provision is not applicable if part of the income exempt from tax) |
|------|-----------------------|---|---|-----------------|---|--|---|

NOTE POINTS:

- If seller or the recipient provides valid PAN but has not filed Income tax return for immediately preceding year for which due date prescribed u/s 139(1) has expired, then also buyer need to deduct tax at source @ 5% u/s 206AB of the Act.
- If tax is deductible under any other section then tax shall be deducted under that section and not u/s 194Q, even though actually not deducted by the payer under any other section.
- If any transaction is covered by the provisions of TCS u/s 206C [Other than section 206C(1H)], then tax shall be deductible by the seller u/s 206C and TDS u/s 194Q will not be applicable.
- If any transaction is covered by the provisions of TCS u/s 206C(1H) as well as by the provisions of TDS u/s 194Q, then TDS u/s 194Q shall be applicable & TCS u/s 206C(1H) shall not be applicable.

| Sec. | Payment | Threshold limit | Payer | Payee | Rate of TDS | Time of deduction | Exemptions / exceptions |
|------|---|--|--------------|--------------|---|---|-------------------------|
| 194R | Any benefit or perquisite arising from business or profession | Value or aggregate value of benefit or perquisite ≤ ₹20,000 in a F.Y | Same as 194A | Any Resident | @10% of the value or aggregate of value of such benefit Value= Fair value of benefit or perquisite (Or) Purchase value, (Or) Price charged to the customer. | Before providing such benefit or perquisite | |

NOTE POINTS:

- Where the benefit is wholly in kind (or) partly in cash and partly in kind but the part in cash is not sufficient to meet the liability of TDS, payer shall release benefit only after ensuring tax has been paid to govt on such benefit.
- It is not necessary for the person providing benefit or perquisite to check whether the amount is taxable under section 28(iv), before deducting tax under section 194R.
- In case of benefit or perquisite being a product like car, mobile, outfit, cosmetics etc. and if the product is returned to the manufacturing company after using for the purpose of rendering service, then it will not be treated as a benefit/perquisite for the purposes of section 194R. However, if the product is retained then it would be in the nature of benefit/perquisite and tax is required to be deducted accordingly under section 194R.
- Tax under section 194R is not required to be deducted on issuance of bonus or right shares by a company in which the public are substantially interested, where bonus shares are issued to all shareholders by such a company or right shares are offered to all shareholders by such a company.

OTHER TDS PROVISIONS:**A. SEC 200**

TDS and tax on non-monetary benefits paid by employer U/S 192(1A) shall be remitted to the credit of the Central Government within the prescribed time limit as detailed here below: [APPLICABLE FOR BOTH TDS AND TCS]

| | |
|------------------------|--|
| For April to February | By the 7 th of the next month |
| For the month of March | By 30 th April of the next financial year |

NOTE: In case of Section 194-IA, 194IB, 194M the amount has to be remitted within 30 days from the end of the month of deduction. A challan cum statement in Form no. 26QB, 26QC, 26QD respectively within 30 days from the end of the month of the deduction

B. SUBMISSION OF QUARTERLY STATEMENTS: [APPLICABLE FOR BOTH TDS AND TCS]

- Every person responsible for deduction of tax under shall deliver, or cause to be delivered, the following quarterly statements to the DGIT (Systems) or any person authorized by him, Form No. 24Q, 26Q, 27Q.

2) DUE DATES:

| S.No. | Date of ending of the quarter of the financial year | Due date |
|-------|---|---|
| 1) | 30 th June | 31 st July of the financial year |
| 2) | 30 th September | 31 st October of the financial year |
| 3) | 31 st December | 31 st January of the financial year |
| 4) | 31 st March | 31 st May of the financial year immediately following the financial year in which the deduction is made. |

Note: In case of sec. 194-IA, 194IB, 194M, a challan cum statement in Form no. 26QB, 26QC, 26QD respectively within 30 days from the end of the month of the deduction.

C. SEC201(1A): INTEREST ON LATE DEDUCTION OR LATE PAYMENT OF TDS

DEEMED ASSESSEE-IN-DEFAULT: The following persons shall be deemed to be an 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.

- a) Who is required to deduct any sum in accordance with the provisions of the Act; and?
- b) Being, an employer paying tax on non-monetary perquisites under section 192(1A).

Provided that any person, who fails to deduct the whole or any part of the TDS on the sum paid to a resident or on the sum credited to the account of a resident shall not be deemed to be an assessee in default in respect of such tax if such resident

- a) Has furnished his return of income u/s 139.
- b) Has taken into account such sum for computing income in such return of income;
- c) Has paid the tax due on the income declared by him in such return of income,
- d) And the person furnishes a certificate to this effect from an accountant in such form as may be prescribed (Form 26A)

| Particulars | Interest rate | Period for which interest is payable |
|--|--------------------------------------|---|
| Delay in deduction | 1% per month or part of the Month. | From the date on which TDS was deductible till the date on which TDS actually deducted. |
| Delay in deposit | 1.5% per month or part of the Month. | From the date on which TDS actually deducted till the date on which such tax actually paid. |
| NOTE: However, where an order is made by the Assessing Officer for assessee-in-default, the interest shall be paid by the person in accordance with such order. | | |

SECTION 206 - CONSEQUENCES ON NON-FURNISHING THE PAN / NON-FILING THE RETURN OF INCOME

| SEC.206AA | SEC. 206AB |
|--|--|
| <ol style="list-style-type: none"> 1) Mandatory requirement of furnishing PAN in all TDS statements, bills, vouchers and correspondence between deductor and deductee. 2) Any person whose receipts are subject to deduction of tax at source i.e., the deductee, shall mandatorily furnish his PAN to the deductor failing which the deductor shall deduct tax at source at higher of the following rates - <ol style="list-style-type: none"> a) The rate prescribed in the Act; b) At the rate in force i.e., the rate mentioned in the Finance Act; or c) At the rate of 20%. [5% In case of 194Q] 3) Wherever tax is deductible at a rate higher than 20%, this provision would not have any impact (Ex: 194B) 4) Tax would be deductible at the rates mentioned above also in cases where the taxpayer files a declaration in Form 15G or 15H (under section 197A) but does not provide his PAN. 5) No certificate under section 197 will be granted by the Assessing Officer unless the application contains the PAN of the applicant. | <ol style="list-style-type: none"> 1) Section 206AB requires tax to be deducted at source under the provisions of this Chapter on any sum or income or amount paid, or payable or credited, by a person to a <u>specified person</u>, at higher of the following rates <ol style="list-style-type: none"> a) At twice the rate prescribed in the relevant provisions of the Act; b) At twice the rate or rates in force i.e., the rate mentioned in the Finance Act; or c) At 5% 2) Section 206AB is not applicable in case of tax deductible at source under sections 192, 192A, 194B, 194BB or 194N. |

NOTE POINTS:

- 1) **SPECIFIED PERSON**: A person who has not furnished the return of income for assessment year relevant to the previous year immediately preceding the financial year in which tax is required to be collected, for which the time limit for furnishing the return of income under section 139(1) has expired

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

PART 2: TAX COLLECTED AT SOURCE

TAX COLLECTION AT SOURCE - SEC 206C

| Section | Eligible transaction | Threshold limit | Person liable to make TCS | TCS will collect from | Time of collection of TCS | TCS rate | |
|---------------|-----------------------|-----------------|---------------------------|-----------------------|--|---|------|
| SEC 206 C (1) | Sale of certain goods | NIL | Seller | Buyer | At the time of credit entry in books (or) at the time of receipt of amount, whichever is earlier | Alcoholic liquor for human consumption | 1% |
| | | | | | | Tendu leaves | 5% |
| | | | | | | Timber and other forest produce | 2.5% |
| | | | | | | Scrap | 1% |
| | | | | | | Minerals, being coal or lignite or iron ore | 1% |

NOTE POINTS:

1) EXCEPTIONS:

- If Buyer is 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.
- Seller means any person other than Ind/ HUF. Ind/ HUF are required to collect TCS if T/o in preceding F.Y > 1cr- business/ >50 lakhs in case of profession.
- Section 206C (1A): TCS is not required if resident buyer furnishes a declaration that the goods u/s 206C(1) are to be utilized for the purposes of manufacturing of articles or for the purposes of generation of power and not for trading purposes.
- In case of goods which are covered u/s 206C (1) but exempted u/s 206C (1A), tax would not be collectible u/s 206C(1)/(1H). Provisions of section 194Q will apply in such cases.

| | | | | | | | |
|---------------|---|-----|---|---|--|----|--|
| SEC 206C (1C) | Lease or license or contract of a) parking lot b) toll plaza or c) mine or a quarry for business purpose | NIL | Lessor or licensor or contractor [Same as Sec 206 C(1)] | Lessee or Licensee or Contractee (Other than a Public Sector Company) | At the time of credit entry in books (or) at the time of receipt of amount, whichever is earlier | 2% | |
|---------------|---|-----|---|---|--|----|--|

NOTE POINTS: Mining and quarrying would not include mining and quarrying of mineral oil including petroleum and natural gas

| | | | | | | | |
|---------------|-----------------------|----------------------|------------------------------|-------|---------------------------------------|------|--|
| Sec 206C (1F) | Sale of Motor Vehicle | Exceeding ₹ 10 lakhs | Seller [Same as Sec 206C(1)] | Buyer | At the time of receipt of such amount | @ 1% | |
|---------------|-----------------------|----------------------|------------------------------|-------|---------------------------------------|------|--|

NOTE POINTS:

EXCEPTIONS:

- It will not apply on sale of motor vehicles by manufacturers to dealers/distributors. (i.e., applicable only to retail sale)
- If buyer is a Public sector co. engaged in the business of carrying passengers, Government, Embassies, trade representation of a foreign State and local authority,
- It will not apply on sale of motor vehicles by manufacturers to dealers/distributors. (i.e., applicable only to retail sale).
- TCS is applicable irrespective of vehicle (Whether luxury vehicles or not).
- TCS is applicable to each sale and not to aggregate value of sale made during the year.
- TCS is applicable Whether the payment made in cash or cheque etc.
- The scope of sections 206C(1H) and (1F) are different. While section 206C(1F) is based on single sale of motor vehicle, section 206C(1H) is for receipt above ₹50 lakhs. Hence, in order to remove difficulty that whether all motor vehicles are excluded from the applicability of section 206C(1H), it is clarified that:
 - Receipt of sale consideration from a dealer would be subjected to TCS under section 206C(1H), if such sales are not subjected to TCS under section 206C(1F).
 - In case of sale to consumer, receipt of sale consideration for sale of motor vehicle of the value of ₹ 10 lakhs or less to a buyer would be subjected to TCS under section 206C(1H), if the receipt of sale consideration for such vehicles during the previous year exceeds ₹50 lakhs during the previous year.
 - In case of sale to consumer, receipt of sale consideration for sale of motor vehicle of the value exceeding ₹10 lakhs would not be subjected to TCS under section 206C(1H) if such sales are subjected to TCS under section 206C(1F).

12. TDS & TCS

| Section | Eligible transaction | Threshold limit | Person liable to make TCS | TCS will collect from | Time of collection of TCS | TCS rate | |
|---------------|--|-----------------|--|---|--|---|------|
| SEC 206C (1G) | Sale of an overseas tour program package | Nil | Seller of an overseas tour programme package | Buyer who purchases the package (Except N.R who is not having P.E in India) | At the time of credit entry in books (or) at the time of receipt of amount, whichever is earlier | Up to 7 lakhs - 5% >7 lakhs - 20% | |
| SEC 206C (1G) | Remittance under LRS of RBI through an authorized dealer | Exceed 7 lakhs | an authorized dealer | From a person remitting such amount (Except N.R who is not having P.E in India) | At the time of credit entry in books (or) at the time of receipt of amount, whichever is earlier | a) Remitted for education or medical treatment | 5% |
| | | | | | | b) Remitted for other than education or medical treatment | 20% |
| | | | | | | c) Amount remitted for education out of education loan. | 0.5% |

NOTE POINTS:

EXCEPTIONS:

- Above section not applicable if buyer is:
 - Liable to deduct TDS under IT Act and deducted the same.
 - CG, SG, an embassy, High commission, legation, consulate, the trade representation of a foreign state, a local authority
- If buyer is N.R visiting India, no TCS u/s 206C(1G)
- No TCS shall be applicable on expenditure through international credit card.
- Threshold of 7 lakhs for LRS is combined threshold for applicability of the TCS on LRS irrespective of the purpose of the remittance.
- Threshold limit of Rs. 7,00,000 is applicable for the full year.
- Purchase of only international travel ticket or purchase of only hotel accommodation is not regarded as "Overseas tour program package"

| | | | | | | |
|---------------|---|----------------------|--------|-------|---|--|
| SEC 206C (1H) | TCS on Sale of any goods [Other than exported goods and goods covered under Sec 206 C(1)/(1F)/(1G)] | Exceeding ₹ 50 lakhs | Seller | Buyer | At the time of receipt of consideration | @ 0.1% (If buyer does not submit PAN or Aadhar then TCS rate is 1%) |
|---------------|---|----------------------|--------|-------|---|--|

NOTE POINTS:

- Seller means a person whose turnover or gross receipts from the business carried on by him more than 10 crores in preceding previous year.
- EXCEPTIONS:** Buyer means a person who purchase any goods, but does not include (Exceptions)
 - CG, SG, an embassy, High commission, legation, commission, consulate, the trade representation of a foreign state, a local authority
 - A person importing goods into India or any other notified person.
- If buyer liable to deduct TDS under IT Act and deducted the same, then TCS not apply
- Sec 206C(1H) not applicable in case of sale of service as this section is applicable only on sale of Goods.
- No adjustment for sale return or discount or GST is required to be made for TCS u/s 206C(1H) since the collection is made with reference to receipt of amount of sale consideration.

NOTE POINTS:

1) SECTION 206CC: HIGHER RATE OF TCS FOR NON-FURNISHERS OF PAN:

- Section 206CC require tax collection at the higher of the following two rates, If collectee fails to furnish PAN to the collector
 - At twice the rate specified in the relevant provision of the Act (or)
 - At 5% [1%, in case tax is required to be collected at source u/s 206C(1H)]
- However, the maximum the rate of TCS under this section shall not exceed 20%
- Tax would be collectible at the rates mentioned above also in case where the person furnishes a declaration under section 206C(1A) but does not provide his PAN.

- d) If the PAN provided to the collector is invalid or it does not belong to the collectee, it shall be deemed that the collectee has not furnished his PAN to the collector.
- e) The provisions of section 206CC do not apply to a non-resident who does not have a permanent establishment in India.
- 2) **SECTION 206CCA: HIGHER RATE OF TCS FOR NON-FILERS OF INCOME-TAX RETURN** - Section 206CCA requires tax to be collected at source under the provisions of this Chapter on any sum or amount received by a person from a specified person, at higher of the following rates
- at twice the rate specified in the relevant provision of the Act;
 - at 5%
 - However, the maximum the rate of TCS under this section shall not exceed 20%.
 - In case the provisions of section 206CC are also applicable to the specified person, in addition to the provisions of section 206CCA, then, tax is required to be collected at higher of the two rates provided in section 206CC and section 206CCA.

NOTE: “Specified person” – A person who has not furnished the return of income for assessment year relevant to the previous year immediately preceding the financial year in which tax is required to be collected, for which the time limit for furnishing the return of income under section 139(1) has expired, and the aggregate of tax deducted at source and tax collected at source in his case is ₹ 50,000 or more in the said previous year.

However, the specified person does not include a non-resident who does not have a permanent establishment in India.

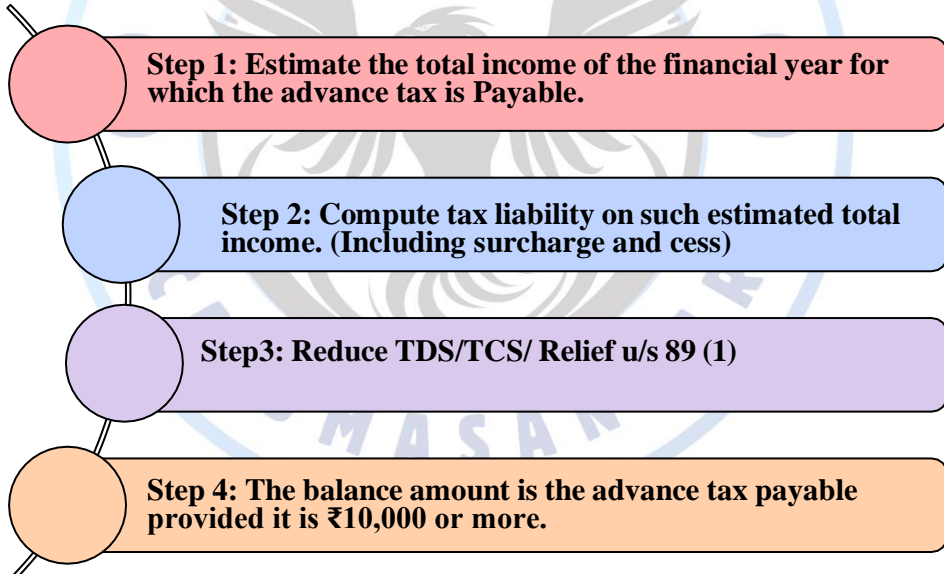
DUE DATE OF TCS PAYMENTS

| TDS deducted / TCS collected month | TCS due date |
|------------------------------------|----------------------------------|
| During April to February months | 7 th of Next month |
| March month | 7 th April of Next FY |

DUE DATE OF TCS RETURNS / STATEMENTS

| Quarter Ended | TCS Return |
|----------------------------|--------------------------|
| 30 th June | 15 th July |
| 30 th September | 15 th October |
| 31 st December | 15 th January |
| 31 st March | 15 th May |

13. ADVANCE TAX AND INTEREST

| | |
|-----------|--|
| SEC. 207: | Tax shall be payable in advance during any financial year in respect of the total income (TI) of the assessee which would be chargeable to tax for the A.Y. immediately following that financial year. |
| SEC. 208: | <p>Assessee is required to pay advance tax if his liability for advance tax is Rs 10,000 or more.</p> <p>EXCEPTION: Resident senior citizen not having income under the head PGBP shall not be liable to pay advance tax.</p> <p>FOCUS POINTS:</p> <ol style="list-style-type: none"> 1) An assessee who is liable to pay advance tax of less than ₹ 10,000 will not be saddled with interest under sections 234B and 234C for defaults in payment of advance tax. However, the consequences under section 234A regarding interest for belated filing of return would be attracted. 2) Where a person has received any income without deduction or collection of tax, he shall be liable to pay advance tax in respect of such income. 3) In case of casual income, the entire tax liability is fully deductible at source @ 30% under section 194B and 194BB. Therefore, advance tax liability would arise only in respect of the health and education cess element of such tax, if the same along with tax liability in respect of other income, if any, is ₹ 10,000 or more. |
| SEC. 209 | <p>MANNER OF COMPUTATION OF ADVANCE TAX:</p>  <pre> graph TD A[Step 1: Estimate the total income of the financial year for which the advance tax is Payable.] --> B[Step 2: Compute tax liability on such estimated total income. (Including surcharge and cess)] B --> C[Step 3: Reduce TDS/TCS/ Relief u/s 89 (1)] C --> D[Step 4: The balance amount is the advance tax payable provided it is ₹10,000 or more.] </pre> <p>Step 1: Estimate the total income of the financial year for which the advance tax is Payable.</p> <p>Step 2: Compute tax liability on such estimated total income. (Including surcharge and cess)</p> <p>Step 3: Reduce TDS/TCS/ Relief u/s 89 (1)</p> <p>Step 4: The balance amount is the advance tax payable provided it is ₹10,000 or more.</p> |

| SEC. 210: | Advance tax will be payable in certain instalments as mentioned in Sec.211. | | | | | | | | | | |
|--|--|-----------|-----------------------|--|----------------------------------|--|------------------------------|---|----------------------|--|-----------------------|
| SEC. 211: | <p><u>DUE DATES OF ADVANCE TAX FOR ALL ASSESSEE.</u></p> <p>1) <u>Common advance tax payment schedule for both corporates and non-corporates (other than assessee opts for sec 44AD/ADA):</u></p> <table> <tr> <th>DUE DATES</th><th>AMOUNT OF ADVANCE TAX</th></tr> <tr> <td>On or before 15th June of PY</td><td>Not less than 15% of advance tax</td></tr> <tr> <td>liability. On or before 15th September of PY</td><td>Not less than 45% of advance</td></tr> <tr> <td>tax liability. On or before 15th December of PY</td><td>Not less than 75% of</td></tr> <tr> <td>advance tax liability. On or before 15th March of PY</td><td>Not less than 100% of</td></tr> </table> <p>advance tax liability.</p> <p>Note: The above mentioned instalments are applicable to assessed opts for sec 44AE</p> <p>2) <u>If assessed opts for sec 44AD/ADA:</u> Due date of advance tax is on or before 15th March of PY (only one instalment) (i.e. Above instalments not applicable in this case)</p> | DUE DATES | AMOUNT OF ADVANCE TAX | On or before 15 th June of PY | Not less than 15% of advance tax | liability. On or before 15 th September of PY | Not less than 45% of advance | tax liability. On or before 15 th December of PY | Not less than 75% of | advance tax liability. On or before 15 th March of PY | Not less than 100% of |
| DUE DATES | AMOUNT OF ADVANCE TAX | | | | | | | | | | |
| On or before 15 th June of PY | Not less than 15% of advance tax | | | | | | | | | | |
| liability. On or before 15 th September of PY | Not less than 45% of advance | | | | | | | | | | |
| tax liability. On or before 15 th December of PY | Not less than 75% of | | | | | | | | | | |
| advance tax liability. On or before 15 th March of PY | Not less than 100% of | | | | | | | | | | |
| SEC. 219: | <p><u>CREDIT OF ADVANCE TAX:</u> Any sum, other than interest or penalty, paid by or recovered from an assessee as advance tax, is treated as a payment of tax in respect of the income of the previous year and credit thereof shall be given in the regular assessment.</p> | | | | | | | | | | |

| SEC.234B: INTEREST FOR NON-PAYMENT OR SHORT PAYMENT OF ADVANCE TAX | | | |
|--|--|----------------------------|--|
| 1) Applicability | Non-payment of advance tax or Payment of advance tax is less than 90% of assessed tax. | | |
| 2) Interest Rate | @1% per month or part of month | | |
| 3) Period For Which Interest Is Payable | From 1 st April following the financial year up to the date of assessment | | |
| 4) Amount On Which Interest Is Payable | PARTICULARS | Non-payment of advance tax | Payment is less than 90% of assessed tax |
| | Tax Payable on Assessed income | xxx | xxx |
| | (-) TDS / TCS | xxx | xxx |
| | (-) Relief u/s 89(1) (-) AMT credit | xxx | xxx |
| | (-) Advance tax paid | xxx | xxx |
| | Short fall: | xxx | xxx |

NOTES:

- 1) However, where self-assessment tax is paid by the assessee under section 140A or otherwise, interest shall be calculated up to the date of payment of such tax. Thereafter, interest shall be calculated on the amount by which the tax so paid together with the advance tax paid falls short of the assessed tax.

- 2) Any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during the F.Y. ending on that day for the purpose of calculating interest u/s 234B.
- 3) **Assessed tax:** tax calculated on total income determined under section 143(1) and where a regular assessment is made, the tax on the total income determined under such regular assessment, However it does not include the additional income-tax, if any, payable under section 140B.
- 4) Short fall amount shall be rounded off to nearest multiples of hundreds by ignoring fractions.

| SEC.234C: INTEREST FOR DEFERMENT OF ADVANCE TAX | |
|---|---|
| 1) APPLICABILITY | Sec 234C is attracted for deferment of advance tax beyond the due dates. |
| 2) INTEREST RATE | 1% per month or part of the month. |
| 3) PERIOD FOR WHICH INTEREST IS PAYABLE | a) For first 3 instalments → Interest is payable for 3 months. b) For last instalment → Interest is payable for 1 month. |
| 4) AMOUNT ON WHICH INTEREST IS PAYABLE | Step 1: Calculate tax on returned income returned income. Step 2: Reduce TDS/TCS/Relief u/s 89(1)/AMT credit. Step 3: Calculate shortfall amount on each due date: Amount due on each due date : xxxx Less: Amount actually paid up to such date : xxxx Short fall : xxxx |
| FOCUS POINT: | |
| <ol style="list-style-type: none"> 1) If advance tax paid in case of 1st & 2nd instalment is 12% or more and 36% or more respectively, then no interest shall be payable by any assessee. 2) If assessee opts for sec 44AD/ADA: Interest is payable @1% p.m or part of the month on short fall amount and calculate only for one month. 3) Short fall amount shall be rounded off to nearest multiples of hundreds by ignoring fractions. | |

NON-APPLICABILITY OF INTEREST UNDER SECTION 234C IN CASE CERTAIN CASES:

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

- 1) The amount of capital gains.
 - 2) Income of nature referred to in section 2(24)(ix) i.e., winnings from lotteries, crossword puzzles etc.
 - 3) Income under the head “Profits and gains of business or profession” in cases where the income accrues or arises under the said head for the first time.
 - 4) The amount of dividend income other than deemed dividend referred u/s 2(22)(e).
- However, the assessee should have paid the whole of the amount of tax payable in respect of such income referred to in (a), (b), (c) and (d), as the case may be, had such income been a part of the total income, as part of the remaining instalments of advance tax which are due or where no such instalments are due, by 31st March of the financial year.

14. PROVISIONS FOR FILING RETURN OF INCOME AND SELF-ASSESSMENT

TYPES OF RETURNS

A) SEC 139(1): FILING OF RETURN OF INCOME (ROI)

PERSON LIABLE TO FILE ROI:

1)

FOR COMPANY & PARTNERSHIP FIRM (INCLUDING LLP): Return filing is compulsory irrespective of income or loss.

2)

FOR OTHER ASSESSES: If Total Income before claiming chapter VIA deduction & exemptions u/s 54, 54B, 54D, 54EC, 54F) exceeding Basic exemption limit.

3)

RESIDENT OTHER THAN NOT ORDINARILY RESIDENT WHO IS:

a) Beneficial owner of any asset (including, financial interest) located outside India, or

b) He has signing authority in any Account outside India, or

c) Beneficiary of any Asset located (including financial interest) outside India

4)

FOLLOWING PERSONS COMPULSORY REQUIRED TO FILE THE RETURN:

a) He has deposited amount more than 1 Crore in aggregate in one or more current account maintain with banks or co-op bank, or

b) He has incurred foreign travel expenditure of more than ₹2,00,000 for himself or any other person, or

c) He had incurred electricity expenditure of more than ₹1,00,000

5)

Other than a company or a firm, who is not required to furnish a return under section 139(1), and who fulfils any of the following conditions during the previous year has to file their return of income:

| S. No | Case | Prescribed Transaction(s) | Exceed the following monetary Threshold limit |
|-------|---|--|---|
| a) | A person carrying on business | His total sales, turnover or gross receipts, as the case may be, in the business | More than ₹60 lakhs during the relevant P.Y. |
| b) | A person carrying on profession | His total gross receipts in profession | More than ₹10 lakhs during the relevant P.Y. |
| c) | i) A resident individual who is aged ₹60 years at any time during the relevant P.Y. | The aggregate of TDS and TCS in his case | More than or equal to ₹50,000 during the relevant P.Y. |
| | ii) Any other person | The aggregate of TDS and TCS in his case | More than or equal to ₹ 25,000 during the relevant P.Y. |
| d) | A person having savings bank account | The deposit in one or more savings bank account of the person, in aggregate | More than or equal to ₹ 50 lakhs during the relevant P.Y. |

NOTES:

- 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.
- Beneficial Owner:** Individual providing consideration for the asset directly or indirectly for the immediate or future benefit for himself or any other person.

- 3) **Beneficiary:** Individual deriving benefit from the asset, consideration for which has been provided by any other person.
- 4) If income already included in the income of person Beneficial owner, then Beneficiary not required to file return.

| DUE DATES FOR FILING ROI: | | |
|---------------------------|--|-----------------------------|
| | ASSESSEE | DUE DATES |
| 1) | In case of an assessee including the partners of the firm being such assessee who is required to furnish a report referred to in section 92E | 30 th Nov. of AY |
| 2) | a) A company b) A person (other than a company) whose accounts are required to be audited under the Income-tax Act, 1961 or any other law for the time being in force; or c) A partner of a firm whose accounts are required to be audited under the Income-tax Act, 1961 or any other law for the time being in force | 31 st Oct. of AY |
| 3) | For every other person other than the above | 31 st July of AY |

NOTES:

- 1) Section 139(1) provides an extended due date, i.e., 30th November of the assessment year, for assessees who have to file a transfer pricing report i.e., accountant's report u/s 92E (i.e. assessee who have undertaken international transactions with associated enterprises). (Section 92E is not covered within the scope of syllabus).
- 2) If the date of filing the return is a public holiday - file on the next working day.
- 3) Posting within the due date under Certificate of Posting is sufficient evidence of return having been filed within the time limit.
- 4) **Consequences of not filing within due date:** Penalty U/s.271F, Interest U/s.234A and Best Judgment Assessment U/s 144.

RELAXATION FROM FILING INCOME-TAX RETURN FOR CERTAIN CATEGORY OF SENIOR CITIZENS:

Specified senior citizens are not required to file return of income subject to satisfaction of following conditions:

- 1) The senior citizen is resident in India and of the age of 75 or more.
- 2) They should only have Pension Income and Interest Income both from the which is credited in a single specified bank (which would be notified by Government).
- 3) They shall be required to furnish a declaration to the specified bank.
- 4) Once the declaration is furnished, the specified bank would be required to compute the income of such senior citizen for the relevant assessment year and deduct income tax on the basis of rates in force.
- 5) It appears that above conditions need to be strictly followed to avail the waiver from filing return. Receipt of any other income apart from above, say Dividend of ₹ 1,000 which is exempt, or if he has any other bank account in addition to specified account, then he would be out above scheme.

B) SEC 234F: FEE FOR DEFAULT IN FURNISHING RETURN OF INCOME

- 1) Where a person, who is required to furnish a return of income under section 139, fails to do so within the prescribed time limit under section 139(1), he shall pay, by way of fee, a sum of ₹ 5,000.
- 2) However, if the total income of the person does not exceed ₹ 5 lakhs, the fees payable shall not exceed ₹ 1,000.

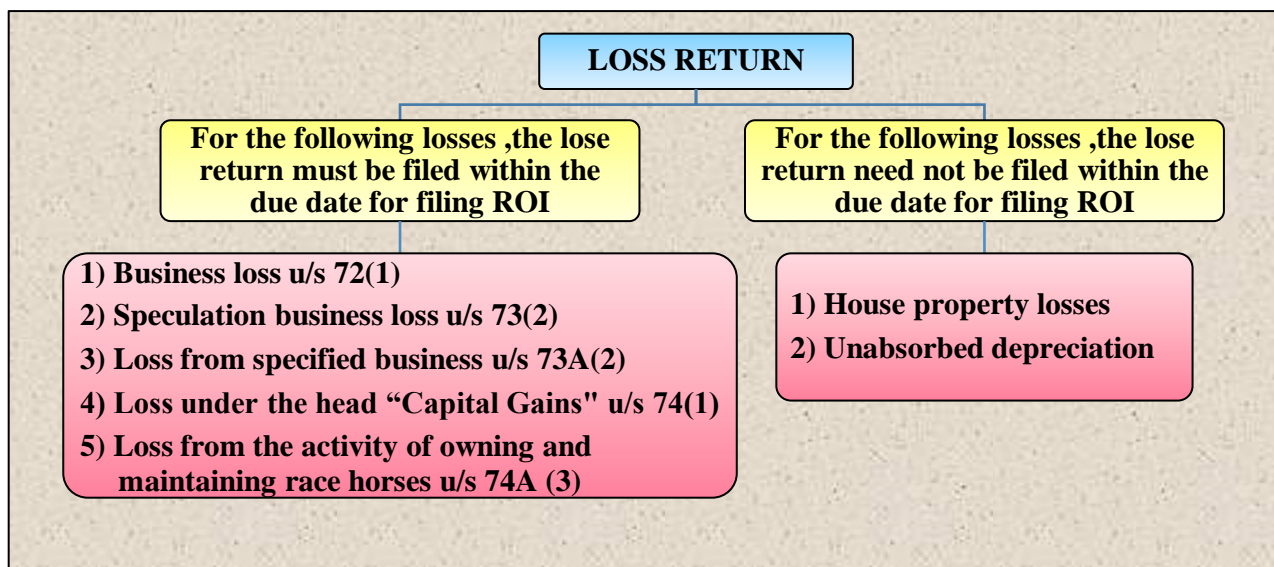
C) SEC 234A: INTEREST FOR NONFILING/LATE FILING OF ROI

| | | |
|---|--|---------------------------------|
| APPLICABILITY | Where the assessee has not filed the return of income or Filed the return of income after the due date specified u/s 139(1). | |
| RATE OF INTEREST | @1% p.m. or part of the month | |
| PERIOD FOR WHICH INTEREST IS PAYABLE | LATE FILING: from the date immediately following the due date to the date of actual filing. NON FILING: from the date immediately following the due date to the date of completion of assessment. | |
| AMUNT ON WHICH INTEEST IS PAYABLE | Tax on total income as determined U/s.143(1)/Regular assessment <u>Less:</u> TDS/TDS and advance tax paid <u>Less:</u> Relief u/s 89(1) <u>Less:</u> AMT credit Short fall amount: | XXX XXX XXX XXX XXX |

NOTES:

- 1) No interest under section 234A shall be charged on self-assessment tax paid by the assessee on or before the due date of filing of return.
- 2) The interest payable under section 234A shall be reduced by the interest, if any, paid on self-assessment under section 140A towards interest chargeable under section 234A.
- 3) Tax on total income as determined under section 143(1) would not include the additional income-tax, if any, payable under section 140B or section 143.
- 4) Tax on total income determined under regular assessment would not include the additional income-tax payable under section 140B.

STUDENT NOTES:

D) SEC 139(3): LOSS RETURN:**NOTES:**

- 1) Any return filed u/s 139(3) will be treated as a return filed u/s 139(1).
- 2) The condition stipulated/ enumerated in sec. 80 applies only for the year in which the loss was sustained/ incurred. It does not apply to the ROI of the year in which carry forward is claimed.
- 3) A return of loss has to be filed by the assessee in his own interest and the non-receipt of a notice from the Assessing Officer requiring him to file the return cannot be a valid excuse under any circumstances for the non-filing of such term.

E) SEC 139(4): BELATED RETURN

| | | |
|-----------------------|--|-------------------------------|
| APPLICABILITY: | If Assessee fails to File return within due date, then he can file belated return. | |
| TIME LIMIT: | Three months prior to end the of the relevant A.Y (OR) Before completion of Assessment. | } Whichever is earlier |
| CONSEQUENCES: | NOTE: Belated return cannot be filed after 31 st December of the relevant assessment year a) No carry forward of specified loss as per sec 80. b) No deduction of certain Income under Chapter VI-A. c) Interest is leviable u/s 234A. d) Late filing fees u/s 234F. | |

F) SEC 139(5): REVISED RETURN

| | |
|-----------------------|---|
| APPLICABILITY: | Any person Filed returns u/s 139(1) or 139(3) or 139(4), if discover any omission or a wrong statement in such ROI Filed earlier, then such person can file revised return within Following time limit. |
| TIME LIMIT: | <div style="display: flex; align-items: center;"> <div style="flex: 1;"> <p>Three months prior to end the of the relevant A.Y</p> <p>(OR)</p> <p>Before completion of Assessment.</p> <p>NOTE: Revised return cannot be filed after 31st December of the relevant assessment year</p> </div> <div style="flex: 0.5; font-size: 3em; margin: 0 10px;">}</div> <div style="flex: 0.5; color: red; text-align: center;"> <p>Whichever is earlier</p> </div> </div> |

NOTES:

- 1) loss returns filed u/s.139(3), Belated return filed u/s 139(4) can be revised u/s 139(5).
- 2) The revised return substitutes original return from the date the original return was filed.
- 3) The effective return is the return ultimately filled by the assessee.
- 4) A second revised return can be filed for correcting any omission or wrong statement made in the first revised return, because the revised return replaces the original return.
- 5) No interest is payable u/s.234A, because a revised return will be considered as having been filed when the original return was filed.

G) SEC 139(8A) - OPTION TO FILE UPDATED RETURN OF INCOME:

- 1) **Eligible Assessee:** Any person may, whether or not he has furnished a return under section 139(1) or belated return under section 139(4) or revised return under section 139(5) for that assessment year, furnish an updated return of his income or the income of any other person in respect of which he is assessable, for the previous year relevant to the assessment year.

This is irrespective of whether or not he has furnished a return under section 139(1) or belated return under section 139(4) or revised return under section 139(5) for that assessment year.

- 2) **Time Limit:** At any time within 24 months from the end of the relevant assessment year

3) EXCEPTIONS:

- a) The provisions of updated return would not apply if the updated return of such person for that assessment year –
 - Is a loss return; or
 - Has the effect of decreasing the total tax liability determined on the basis of return furnished under section 139(1) or section 139(4) or section 139(5); or
 - Results in refund or increases the refund due on the basis of return furnished under section 139(1) or section 139(4) or section 139(5).
- b) No updated return can be furnished by any person for the relevant assessment year, where-
 - An updated return has been furnished by him under this sub section for the relevant assessment year; or
 - Any proceeding for assessment or reassessment or re-computation or revision of income is pending or has been completed for the relevant assessment year in his case; or
 - He is such person or belongs to such class of persons, as may be notified by the CBDT.

- 4) Updated return can be filed if original return is a loss return and updated return is a return of income.
- 5) However, If the loss or any part thereof carried forward under Chapter VI or unabsorbed depreciation carried forward under section 32(2) or tax credit carried forward under section 115JD is to be reduced for any subsequent previous year as a result of furnishing of updated return of income for a previous year, an updated return is required to be furnished for each such subsequent previous year.
- 6) **TAX ON UPDATED RETURN:**

| | |
|--|---------------|
| Tax payable on the basis of updated return | - xxx |
| <u>Add:</u> Additional income tax (As per sec 140B(3)) | - <u>xxx</u> |
| | - <u>xxxx</u> |

NOTES:

- 1) **Section 140B (3) Additional income-tax payable at the time of updated return:**
- 25% of aggregate of tax and interest payable, as determined above, if such return is furnished after expiry of the time available u/s 139(4) or 139(5) and before completion of the period of 12 months from the end of the relevant assessment year; or
 - 50% of aggregate of tax and interest payable, as determined above, if such return is furnished after the expiry of 12 months from the end of the relevant assessment year but before completion of the period of 24 months from the end of the relevant assessment year.
- 2) **Payment of tax, additional tax, interest and fee before furnishing updated return of income:**
- If no return is furnished earlier [Section 140B (1):** Where no return of income under section 139(1) or 139(4) has been furnished by an assessee and tax is payable, on the basis of updated return to be furnished by such assessee under section 139(8A), the assessee would be liable to pay such tax together with interest and fee payable under any provision of this Act for any delay in furnishing the return or any default or delay in payment of advance tax, along with the payment of additional tax computed under section 140B(3), before furnishing the return.

The tax payable is to be computed after taking into account the following:

- The amount of tax, if any, already paid, as advance tax
- The tax deducted or collected at source.
- Any relief of tax claimed under section 89; and
- Any tax credit claimed to set-off in accordance with the provisions of section 115JD.

The return has to be accompanied by the proof of payment of such tax, additional tax, interest and fee

- If return is furnished earlier [Section 140B(2)]:** Where, return of income under section 139(1) or 139(4) or 139(5) has been furnished by an assessee and tax is payable, on the basis of updated return to be furnished by such assessee under section 139(8A), the assessee would be liable to pay such tax together with interest payable under any provision of this Act for any default or delay in payment of advance tax, along with the payment of additional tax computed under section 140B(3) (as reduced by the amount of interest paid under the provisions of this Act in the earlier return) before furnishing the return.

c) **The tax payable has to be computed after taking into account the following:**

- The amount of relief or tax referred to in section 140A(1), the credit for which has been taken in the earlier return
- The tax deducted or collected at source on any income which is subject to such deduction or collection, and which is taken into account in computing total income and which has not been included in the earlier return
- Any tax credit claimed to set-off in accordance with the provisions of section 115JD, which has not been claimed in the earlier return.

3) The aforesaid tax would be increased by the amount of refund, if any, issued in respect of such earlier return. The return has to be accompanied by the proof of payment of such tax, additional tax, interest and fee.

H) SEC 139(9) - DEFECTIVE RETURN:

- 1) Where the Assessing Officer considers that the return of income furnished by the assessee is defective, he may intimate the defect to the assessee and give him an opportunity to rectify the defect within 15 days from the date of intimation. The Assessing Officer has the discretion to extend the time period beyond 15 days, on an application made by the assessee in this behalf. The period of 15 days will have to be reckoned from the date on which the communication is served upon the assessee.
- 2) If the defect is not rectified within the period of 15 days or such further extended period, the return would be treated as an invalid return. The consequential effect would be the same as if the assessee had failed to furnish the return.
- 3) Where, however, the assessee rectifies the defect after the expiry of 15 days or the further extended period, but before the assessment is made, the Assessing Officer may condone the delay and treat the return as a valid return.
- 4) A return of income would be regarded as defective unless the annexures, statements and columns therein relating to computation of income chargeable under each head of income, gross total income and total income have been duly filled in.
- 5) A return of income u/s 139 would also be regarded as defective if it is not accompanied by proof of payment of taxes, whether by way of advance tax or self-assessment tax.

I) SEC 139(1A) - FILING OF BULK RETURNS BY EMPLOYER ON BEHALF OF EMPLOYEES

| |
|---|
| 1) <u>APPLICABILITY:</u> Only to salaried class of employees. |
| 2) <u>PROVISION:</u> <ol style="list-style-type: none">a) In case of salaried class of assesses the return of income for any previous year can be furnished to the employer concerned.b) Such employer shall furnish returns received by him on or before the due date on computer readable media using the authorised Bulk Return Preparation Software (BRPS). The BRPS can be collected from the Income-tax Department. |
| 3) <u>EXCEPTIONS:</u> Return of earlier years, Revised return, return without PAN & Return of an employee having more than one employer. |

J) CASES WHERE PAN TO BE QUOTED IN TRANSACTIONS: [SEC 139A(5) AND RULE 114B]:

Quoting of PAN is mandatory in all documents pertaining to the following prescribed transactions [Section 139A(5)]:

- 1) In all returns to, or correspondence with, any income-tax authority;
- 2) In all challans for the payment of any sum due under the Act;
- 3) In all documents pertaining to such transactions entered into by him, as may be prescribed by the CBDT in the interests of revenue. In this connection, CBDT has notified the following transactions *vide* Rule 114B, namely:

| S.no | Nature of transaction | Value of transaction |
|------|--|--|
| 1) | Sale or purchase of a motor vehicle, other than two-wheeler | All such transactions. |
| 2) | Opening an account [other than a time-deposit referred to at Serial No.12 and a Basic Savings Bank Deposit Account] with a banking company or a co-operative bank. | 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 D-Mat account. | All such transactions. |
| 5) | Payment to a hotel or restaurant against a bill or bills at any one-time. | Payment in cash of > 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 exceeding 50,000 |
| 7) | Payment to a Mutual Fund for purchase of its units. | Amount exceeding 50,000. |
| 8) | Payment to a company or an institution for acquiring debentures or bonds issued by it. | Amount exceeding 50,000. |
| 9) | Payment to the RBI, for acquiring bonds issued by it. | Amount exceeding 50,000 |
| 10) | Deposit with a banking company or a Co-operative bank or post office. | Deposits in cash exceeding 50,000 during anyone 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 exceeding 50,000 during any one day. |
| 12) | A time deposit with a) A banking company or a co-operative bank b) A Post Office; (iii) a Nidhi (IV) a NBFC. | Amount exceeding 50,000 or aggregating to more than ₹ 5,00,000 during a FY. |
| 13) | Payment for one or more pre-paid payment instruments, as defined in the policy guidelines for issuance and operation of pre-paid payment instruments issued by RBI or 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 a amount aggregating to exceeding 50,000 in a FY. |
| 14) | Payment as life insurance premium to an insurer | Amount aggregating to exceeding ₹ 50,000 in a FY. |
| 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 in a recognised stock exchange. | Amount exceeding 1,00,000 per transaction |

| | | |
|-----|---|---|
| 17) | Sale or purchase of any immovable property. | Amount exceeding 10L (or) SDV exceeding 10L |
| 18) | Sale or purchase, by any person, of goods or services of any nature other than those specified at S. No. 1 to 17 of this Table, if any. | Amount exceeding 2,00,000 per transaction. |

NOTES:

- 1) Minor not having any income taxable in his own hands, can enter into the above transactions by quoting the PAN of his parents or guardian.
- 2) **Declaration by a person not having PAN:**
 - a) Any person, not being a company or a firm who does not have a PAN and who enters into any transaction specified in this rule, shall make a declaration in Form No.60 giving therein the particulars of such transaction either in paper form or electronically.
 - b) However, in case of a foreign company who does not have any income chargeable to tax India and does not have a PAN and enters into transaction referred to at Sl. No. 2 or 12 of the above table, in an IFSC banking unit, it has to make a declaration in Form No. 60.
 - c) Meaning of IFSC Banking Unit – A financial institution defined under section 3(1)(c) of the IFSC Authority Act, 2019, that is licensed or permitted by the IFSC to undertake permissible activities under the IFSC Authority (Banking) Regulations, 2020.
- 3) **If** there is a change in the address or in the name and nature of the business of a person, on the basis of which PAN was allotted to him, he should intimate such change to the Assessing Officer [Section 139A (5)(d)].
- 4) **Non-applicability of Rule 114B:** The provisions of this rule shall not apply to the following class or classes of persons, namely:
 - a) The Central Government, the State Governments and the Consular Offices;
 - b) The non-residents in respect of the transactions other than a transaction referred to at Sl. No. 1 or 2 or 4 or 7 or 8 or 10 or 12 or 14 or 15 or 16 or 17 of the Table.
- 5) Every person entering into prescribed transaction shall be required to authenticate the PAN or Aadhaar quoted. Also, every person receiving such documents should ensure that PAN or Aadhaar is quoted on the documents and authenticated.

Example: Suppose Mr. MM paid insurance premium of 80,000 to LIC and MM submitted his PAN/Aadhaar then MM require to authenticate that PAN/Aadhaar belongs to him, In this case LIC also require authenticating that PAN/Aadhaar belongs to MM only.
- 6) 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. [Section 139A(5A)].
Similarly, every buyer or licensee or lessee referred to in section 206C shall intimate his PAN to the person responsible for collecting such tax. [Section 139A(5C)]
- 7) **Requirement to intimate PAN and quote PAN not to apply to certain persons:** A person who –
 - a) Does not have taxable income or
 - b) Who is not required to obtain PAN.
 - c) If such person furnishes a declaration under section 197A in the prescribed form and manner that the tax on his estimated total income for that previous year will be Nil.

K) SEC 139AA - QUOTING OF AADHAAR NUMBER:

- 1) **Provision of section 139AA Not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:**
 - a) Residing in the states of J&K, Meghalaya, and Assam
 - b) A non-resident as per income tax act, 1961
 - c) Of the age of 80 years or more at any time during the P.Y.
 - d) Not a citizen of India.

2) Intimation of Aadhaar Number to prescribed Authority:

Every person who has been allotted Permanent Account Number (PAN) as on 1st July, 2017, and who is eligible to obtain Aadhaar Number, shall intimate his Aadhaar Number to prescribed authority on or before 31st March, 2022.

L) SEC 234H - FEE FOR DEFAULT IN LINKING AADHAAR AND PAN:

- 1) ₹500, in a case where such intimation is made in between 1.04.2022 to 30.06.2022 and
- 2) ₹1,000, in all other cases.

M) PENALTY FOR FAILURE TO COMPLY WITH THE PROVISIONS OF SEC.139A [SEC.272B):

| SECTION | DEFAULT | PENALTY |
|----------|---|-------------------------------|
| 272B(1) | Failure to comply with the provisions of section 139A | ₹10,000 |
| 272B(2) | Failure to quote PAN/Aadhaar number in any document referred to in section 139A(5C) | |
| | Failure to intimate PAN/Aadhaar number as required by section 139A(5A)/(5C) | ₹10,000 for each such default |
| | Knowingly quoting or intimating a number which is false | |
| 272B(2A) | Failure to quote PAN/Aadhaar Number in documents referred to in section 139A(6A) or authenticate such number in accordance with the provisions contained therein | ₹10,000 for each such default |
| 272B(2B) | 1) Failure to ensure that PAN/Aadhaar Number is duly quoted in the documents relating to transactions referred to in section 139A(5C) or section 139A(6A) 2) Failure to ensure that PAN/Aadhaar Number has been duly authenticated in respect of transactions referred to under section 139A(6A) | ₹10,000 for each such default |

NOTES:

It is necessary to give an opportunity to be heard to the person on whom the penalty under section 272B is proposed to be imposed.

N) SEC 139B: TAX RETURN PREPARER (TRP):

- 1) This section provides that, for the purpose of enabling any specified class or classes of persons to prepare and furnish their returns of income, the CBDT may notify a scheme to provide that such persons may furnish their returns of income through a Tax Return Preparer authorised to act as such under the Scheme.

- 2) The Tax Return Preparer shall assist the persons furnishing the return in a manner that will be specified in the Scheme and shall also affix his signature on such return
- 3) A Tax Return Preparer means any individual, other than
- Any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings.
 - Any legal practitioner who is entitled to practice in any civil court in India.
 - An accountant
 - An employee of the 'specified class or classes of persons'.
- 4) **EDUCATIONAL QUALIFICATION:** An individual, who holds a bachelor degree from a recognised Indian University or institution, or has passed the intermediate level examination conducted by the Institute of Chartered Accountants of India or the Institute of Company Secretaries of India or the Institute of Cost Accountants of India, shall be eligible to act as Tax Return Preparer
- 5) **SPECIFIED CLASS OF PERSON:** Any persons can file their ROI through TRPs, other than the following persons:
- A Company
 - Any other person whose Books of Accounts are required to be audited under sec. 44AB or under any other law.
- 6) **THE SCHEME MAY PROVIDE FOR:**
- Educational and other qualification to be possessed,
 - Training and other conditions to be fulfilled,
 - Code of conduct for the TRP,
 - Duties and obligations of the TRP,
 - Manner & the period he shall be authorized,
 - When the permission may be withdrawn.

O) **SEC 140 - VERIFICATION OF RETURN:**

| | IN CASE OF | VERIFIED BY |
|----|---|---|
| 1) | An individual | Himself |
| | where he is absent from India | a) the individual himself; or b) any person duly authorised by him |
| | Mentally incapacitated | a) his guardian; or b) any other person competent to act on his behalf |
| | Where, for any other reason, it is not possible for the individual to verify the return | Any person duly authorized by him in this behalf holding a valid power of attorney from the individual. |
| 2) | Hindu Undivided Family (HUF) | Karta of HUF |
| | Karta does not present in India or Karta mentally incapacitated | Any adult member HUF |

| | | |
|----|---|--|
| 3) | Partnership firm | Managing Partner |
| | If there is no managing partner/due to unavoidable reason such managing partner is not able to verify the return | Any adult Partner |
| | IN CASE OF | VERIFIED BY |
| 4) | Limited Liability Partnership firm (LLP) | Designated partner |
| | If there is no designated partner/due to unavoidable reason such designated partner is not able to verify the return | Any Partner or any other person may be prescribed |
| 5) | Company | Managing Director |
| | If there is No Managing director or due to any unavoidable reason such managing director is not able to verify the return | Any other Director or *any other person may be prescribed |
| | Where the company is not resident in India | a) The managing director of the company (or) b) A person who holds a valid power of attorney. |
| | Company under liquidation/Wound up | Liquidator |
| | Insolvency company | Insolvency professional appointed by such Adjudicating Authority |
| | Where the management of the company has been taken over by the Central Government or any State Government under any law | The principal officer of the company |
| 6) | Political Party | Chief Executive Officer |
| 7) | Local Authority | Principal officer |
| 8) | Any other association | Any member of the association or the principal officer of such association |
| 9) | Any other person. | Person competent to verify |

P) SEC 140A - SELF-ASSESSMENT TAX:

- 1) **Payment of tax, interest and fee before furnishing return of income [Section 140A(1)]:** Where any tax is payable on the basis of any return required to be furnished under, inter alia, section 139, after taking into account –
- The amount of tax, already paid, under any provision of the Income-tax Act, 1961
 - The tax deducted or collected at source.
 - Any relief of tax claimed under section 89.
 - Any tax credit claimed to set-off in accordance with the provisions of section 115JD, in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A); and
 - Any tax or interest payable as per the provisions of section 191(2), the assessee shall be liable to pay such tax together with interest and fee 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 has to be accompanied by the proof of payment of such tax, interest and fee.

- 2) **Order of adjustment of amount paid by the assessee:** Where the amount paid by the assessee under section 140A (1) falls short of the aggregate of the tax, interest and fee as aforesaid, the amount so paid shall first be adjusted towards the fee payable and there after towards interest and the balance, if any, shall be adjusted towards the tax payable.
- 3) **Consequence of failure to pay tax, interest or fee [Section 140A(3)]:** If any assessee fails to pay the whole or any part of such of tax or interest or fee, he shall be deemed to be an assessee in default in respect of such tax or interest or fee remaining unpaid and all the provisions of this Act shall apply accordingly.

NOTES:

Interest under section 234A and section 234B: For the above purpose, interest payable shall be computed on the amount of tax on the total income as declared in the return.



15. EXEMPTED INCOME**PART A: EXEMPTIONS**

| S.NO. | SECTION | ELIGIBLE ASSESSEE | INCOME |
|---|-----------|--|---|
| 1) | 10(1) | Any person | Agricultural income is fully exempt from tax |
| 2) | 10(2) | Member of HUF | Income share received by member from HUF |
| 3) | 10(2A) | Partner of FIRM | Share of profit received by partner from FIRM |
| 4) | 10(4)(ii) | a) Person resident Outside India (under FEMA Act) (Or) b) A person who has been permitted to maintain said a/c by RBI | Interest on money standing to the credit in a Non-resident (External) Account in India |
| NOTE: It may be noted that the joint holders of the NRE Account do not constitute an AOP by merely having these accounts in joint names. The benefit of exemption under section 10(4)(ii) will be available to such joint account holders, subject to fulfillment of other conditions contained in that section by each of the individual joint account holders. | | | |
| | 10(6) | Individual assesses who are not citizens of India. | a) Remuneration received by officials of Embassies etc. of Foreign States [Section 10(6)(ii)] b) Remuneration received for services rendered in India as an employee of foreign enterprise [Section 10(6)(vi)] c) Salary received by a non-citizen non-resident for services rendered in connection with employment on foreign ship [Section 10(6)(viii)] d) Remuneration received by Foreign Government employees during their stay in India for specified training [Section 10(6)(xi)] |
| | 10(7) | A citizen of India for services rendered outside India | Allowances or perquisites paid or allowed as such outside India by the Government. |
| | 10(10BC) | Any Person | Compensation received on account of disaster from CG, SG or Local Authority by an assessee or legal heirs. However, this exemption is not applicable for any amount received or receivable to the extent such individual or his legal heir has been allowed a deduction under this Act on account of any loss or damage caused by such disaster |
| | 10(10CC) | Any employee | The amount of tax actually paid by an employer, on non-monetary perquisites on behalf of an employee, is not taxable |
| | 10(10D) | Any Person | Any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy shall not be included in the total income of a person. (Subject to some conditions and limits) (Refer Sec 80C) |
| NOTE: 1) From A.Y. 2022-23, exemption u/s 10(10D) of the Act shall not be available to any ULIP issued on or after 1 st February 2021 and amount of premium payable for any of the previous year during the term of such policy is more than Rs.2,50,000. 2) Further, if more than 1 ULIP is issued on or after 1 st February 2021 and the aggregate amount of premium payable on those ULIPs for any of the previous year during the term of such policies exceeds Rs.2,50,000; then exemption shall not be available for such policies u/s 10(10D) of the Act. 3) However, amount received by nominee after death of policy holder is still eligible for exemption even if premium Payable exceed 2,50,000. | | | |

| S.NO. | SECTION | ELIGIBLE ASSESSEE | INCOME |
|-------|------------|---|--|
| | 10(11A) | Any Person | Payment from Sukanya Samriddhi Account including interest. |
| | 10(12A) | An individual | Payment from the National Pension System Trust on closure of account or on opting out of the Pension scheme referred u/s 80CCD is exempt up to 60% of the amount payable |
| | 10(12B) | An individual | Exemption on payment from NPS Trust to an employee on partial withdrawal to the extent it does not exceed 25% of amount of contributions made by him. |
| | 10(12C) | Person enrolled under the Agnipath Scheme | Any payment from the Agnipath Corpus Fund to a person enrolled under the Agnipath Scheme or to his nominee would be exempt from tax. |
| | 10(16) | Any Person | Educational scholarships |
| | 10(17) | Any Person | Daily & Constituency allowance is to MPs & MLAs (only under optional tax rates) |
| | 10(17A) | Any Person | Awards for literary, scientific, and artistic works and awards by the Government |
| | SEC 10(18) | Any Person | Pension received by individual who has been in service of Central of State Government and has awarded "Param Vir Chakra" or "Maha Vir Chakra" or "Vir Chakra" such other gallantry award as the as the Central Government notifies is exempt from tax. |
| | 10(26AAA) | Specified income of a Sikkimese Individual. | The following income which accrues or arises to a Sikkimese individual, would be exempt from income-tax: a) Income from any sources in the State of Sikkim; or b) Income by way of dividend or interest on securities. However, this exemption will not be available to a Sikkimese Woman who, on or after 1 st April 2008, marries a non-Sikkimese individual. |

EXEMPTION UNDER SECTION 10(10D): Any sum received under a life insurance policy, including the sum allocated by way of bonus on such policy would not be included in the total income of a person [Section 10(10D)].

The following table summarizes the exemption available under section 10(10D) vis-a-vis the date of issue of such policies and the corresponding condition to be satisfied for exemption –

EXEMPTION U/S 10(10D):

| | |
|--|---|
| In respect of Policies issued before 01.04.2003 | Any sum received under a LIP including the sum allocated by way of bonus is exempt. |
| In respect of policies issued between 01.04.2003 and 31.03.2012 | Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 20% of "actual capital sum assured". |
| In respect of policies issued on or after 01.04.2012 but before 01.04.2013 | Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 10% of actual capital sum assured. |
| In respect of Policies issued on or after 01.04.2013 | 1) Where the insurance is on the life of a person with disability or severe disability as referred to in section 80U or a person suffering from disease or ailment as specified under section 80DDB. Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 15% of "actual capital sum assured" |
| | 2) Where the insurance is on the life of any person, other than mentioned in (a) above Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 10% of "actual capital sum assured". |

| | |
|---|--|
| In respect of policies issued on or after 01.04.2023 | Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would not be available if the premium payable for any of the years during the term of the policy exceeds 10% or 15%, as the case may be, of "actual capital sum assured. |
| | Further, exemption would also not be available if the amount of premium payable exceeds ₹ 5,00,000 for any of the previous years during the term of such policy. |
| | In a case where premium is payable by a person for more than one LIP (other than ULIP) and the aggregate of premium payable on such policies exceed ₹5,00,000 for any of the previous years during the term of any such policy(ies), exemption would be available in respect of any of those LIPs (other than ULIP), at the option of the assessee, whose aggregate premium payable does not exceed ₹5,00,000 for any of the previous years during their term. |
| NOTE: Any sum is received on the death of a person is exempt irrespective of the annual premium payable on the policy. The condition of payment of premium of 10% or 15% or 20% or ₹ 5,00,000 would not be applicable. | |

NOTE:

- 1) **Exemption is not available in respect of amount received from an insurance policy taken for disabled person under section 80DD:** If the dependent disabled, in respect of whom an individual or the member of the HUF has paid or deposited any amount in any scheme of LIC or any other insurer, predeceases the individual or the member of the HUF, the amount so paid or deposited shall be deemed to be the income of the assessee of the previous year in which such amount is received. Such amount would not be exempt u/s 10(10D).
- 2) Exemption is not available in respect of the sum received under a keyman insurance policy
- 3) **Taxability of sum received under a LIP which is not exempt u/s 10(10D):**
Where any sum is received (including the amount allocated by way of bonus) at any time during a previous year, under a life insurance policy, which is not exempt under section 10(10D), then (sum so received - aggregate of the premium paid during its term) is taxable under Income From Other Sources.
- 4) Any sum received under term insurance is fully exempt irrespective of amount of premium
- 5) While calculating premium amount, GST component should not be considered

Example 1:

| LIP | A |
|--|-----------|
| Date of issue | 1.4.2013 |
| Annual premium | 6,00,000 |
| Sum assured | 60,00,000 |
| Consideration received as on 01.11.2023 on maturity | 70,00,000 |
| Note – The assessee did not receive any consideration under anyother eligible LIPs in earlier P.Y. preceding the P.Y.2024-25. | |

Eligibility for exemption u/s 10(10D) - The consideration received under LIP "A" would be exempt u/s 10(10D) in A.Y. 2025-26 since annual premium does not exceed 10% of the actual capital sum assured. Moreover, as the policy has been issued before 1.4.2023, limit of Rs. 5,00,000 of amount of premium payable is not applicable, since it is not an eligible LIP.

Example 2:

| LIP | A |
|--|-----------|
| Date of issue | 1.4.2023 |
| Annual premium | 5,00,000 |
| Sum assured | 50,00,000 |
| Consideration received as on 01.11.2033 on maturity | 52,00,000 |
| Note – The assessee did not receive any consideration under anyother eligible LIPs in earlier P.Y. preceding the P.Y.2033-34. | |

Eligibility for exemption u/s 10(10D) - The consideration received would be exempt u/s 10(10D) in A.Y. 2034-35, since the annual premium payable on the policy does not exceed Rs. 5,00,000 and also does not exceed 10% of actual capital sum assured.

Example 3:

| LIP | A |
|--|-----------|
| Date of issue | 1.4.2023 |
| Annual premium | 6,00,000 |
| Sum assured | 60,00,000 |
| Consideration received as on 01.11.2033 on maturity | 70,00,000 |
| Note – The assessee did not receive any consideration under anyother eligible LIPs in earlier P.Y. preceding the P.Y.2033-34. | |

Eligibility for exemption u/s 10(10D) - The consideration received would not be exempt u/s 10(10D) in A.Y. 2034-35 since the annual premium payable on the eligible LIP exceeds Rs.5,00,000.

Example 4:

| LIP | A | B |
|--|-----------|-----------|
| Date of issue | 1.4.2023 | 1.4.2023 |
| Annual premium | 3,00,000 | 2,00,000 |
| Sum assured | 30,00,000 | 20,00,000 |
| Consideration received as on 01.11.2033 on maturity | 32,00,000 | 21,00,000 |
| Note – The assessee did not receive any consideration under anyother eligible LIPs in earlier P.Y. preceding the P.Y.2033-34. | | |

Eligibility for exemption u/s 10(10D) – In this case, the aggregate of the annual premium payable for LIP “A” and LIP “B” does not exceed Rs.5,00,000 during the term of these policies.

Further, annual premium payable in respect of LIP “A” and LIP “B” does not exceed 10% of actual capital sum assured. Therefore, the consideration received under LIP “A” and “B” would be exempt u/s 10(10D) in A.Y. 2034-35

Example 5:

| LIP | A | B |
|---|-----------|-----------|
| Date of issue | 1.4.2023 | 1.4.2023 |
| Annual premium | 4,50,000 | 5,50,000 |
| Sum assured | 45,00,000 | 55,00,000 |
| Consideration received as on 01.11.2033 on maturity | 52,00,000 | 60,00,000 |

Note – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.

Eligibility for exemption u/s 10(10D) – In this case, the aggregate of the annual premium payable for LIP “A” and LIP “B” exceeds Rs. 5,00,000 during the term of these policies.

However, the consideration received under LIP “A” would be exempt u/s 10(10D) in A.Y. 2034-35, since its annual premium payable does not exceed Rs. 5,00,000 for any previous year during the term of the policy and also does not exceed 10% of actual capital sum assured.

Consequently, the consideration received under LIP “B” alone would not be exempt u/s 10(10D) in A.Y. 2034-35.

Example 6:

| LIP | A | B | C |
|---|-----------|-----------|-----------|
| Date of issue | 1.4.2023 | 1.4.2023 | 1.4.2023 |
| Annual premium | 1,00,000 | 3,50,000 | 6,00,000 |
| Sum assured | 10,00,000 | 35,00,000 | 60,00,000 |
| Consideration received as on 01.11.2033 on maturity | 12,00,000 | 40,00,000 | 70,00,000 |

Note – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.

Eligibility for exemption u/s 10(10D) - The aggregate of annual premium payable for LIP “A”, LIP “B” and LIP “C” exceeds Rs. 5,00,000 during the term of these policies.

However, the consideration received under LIPs “A” and “B” would be exempt u/s 10(10D) in A.Y. 2034-35, since aggregate of annual premium payable for these two policies does not exceed Rs. 5,00,000 for any previous year during the term of these two policies and annual premium payable in respect of these policies does not exceed 10% of actual capital sum assured.

Consequently, the consideration received under LIP “C” alone would not be exempt u/s 10(10D) in A.Y. 2034-35.

Example 7:

| LIP | X | A | B | C |
|---|-----------|-----------|-----------|-----------|
| Date of issue | 1.4.2022 | 1.4.2023 | 1.4.2023 | 1.4.2023 |
| Annual premium | 5,50,000 | 1,00,000 | 3,50,000 | 6,00,000 |
| Sum assured | 55,00,000 | 10,00,000 | 35,00,000 | 60,00,000 |
| Consideration received as on 01.11.2032 on maturity | 62,00,000 | | | |
| Consideration received as on 01.11.2033 on maturity | | 12,00,000 | 40,00,000 | 70,00,000 |

Note – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34, except LIP X in P.Y. 2032-33.

Eligibility for exemption u/s 10(10D) - The consideration received under LIP “X” would be exempt u/s 10(10D) in A.Y. 2032-33, since annual premium does not exceed 10% of the actual capital sum assured. Moreover, as the policy has been issued before 1.4.2023, limit of Rs. 5,00,000 on amount of premium payable is not applicable, since LIP “X” is not an eligible LIP.

The aggregate of annual premium payable for LIP “A”, LIP “B” and LIP “C” (being LIPs issued on or after 1.4.2023) exceeds Rs. 5,00,000 during the term of these policies.

However, the consideration received under LIPs “A” and “B” would be exempt u/s 10(10D) in A.Y. 2034-35, since aggregate of annual premium payable for these two policies does not exceed Rs. 5,00,000 for any previous year during the term of these two policies and annual premium payable in respect of these policies does not exceed 10% of actual capital sum assured.

Consequently, the consideration received under LIP “C” alone would not be exempt u/s 10(10D) in A.Y. 2034-35.

Example 8:

| LIP | X | A | B | C |
|---|-----------|-----------|-----------|-----------|
| Date of issue | 1.4.2023 | 1.4.2024 | 1.4.2024 | 1.4.2024 |
| Annual premium | 4,50,000 | 1,00,000 | 1,50,000 | 6,00,000 |
| Sum assured | 45,00,000 | 10,00,000 | 15,00,000 | 60,00,000 |
| Consideration received as on 01.11.2033 on maturity | 50,00,000 | | | |
| Consideration received as on 01.11.2034 on maturity | | 12,00,000 | 18,00,000 | 70,00,000 |

Note – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2034-35, except LIP X in P.Y. 2033-34.

Eligibility for exemption u/s 10(10D) - The consideration under LIP “X” would be exempt u/s 10(10D) in P.Y. 2033-34, since the annual premium does not exceed Rs. 5,00,000 and also does not exceed 10% of actual capital sum assured.

In this case, the aggregate of the annual premium payable for LIP “A”, LIP “B” and LIP “C” along with the premium for LIP “X” exceeds

Rs. 5,00,000 during the term of these policies.

The aggregate of the annual premium payable for LIP “A” and the premium for LIP “X” also exceeds Rs. 5,00,000 during the term of these policies.

Consequently, the consideration received under LIP “A”, LIP “B” and LIP “C” would not be exempt u/s 10(10D) in A.Y. 2035-36.

Example 9:

| LIP | X | A | B | C |
|---|-----------|-----------|-----------|-----------|
| Date of issue | 1.4.2023 | 1.4.2024 | 1.4.2024 | 1.4.2024 |
| Annual premium | 2,50,000 | 2,00,000 | 2,50,000 | 6,00,000 |
| Sum assured | 25,00,000 | 20,00,000 | 25,00,000 | 60,00,000 |
| Consideration received as on 01.11.2033 on maturity | 30,00,000 | | | |
| Consideration received as on 01.11.2034 on maturity | | 24,00,000 | 38,00,000 | 70,00,000 |

Note – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2034-35, except LIP X in P.Y. 2033-34.

Eligibility for exemption u/s 10(10D) - The consideration under LIP “X” would be exempt u/s 10(10D) in P.Y. 2033-34, since the annual premium does not exceed Rs. 5,00,000 and also does not exceed 10% of actual capital sum assured.

In this case, the aggregate of the annual premium payable for LIP “A”, LIP “B” and LIP “C” along with the premium for LIP “X” exceeds

Rs. 5,00,000 during the term of these policies.

However, the consideration received under LIPs “A” or “B” (any one) can be claimed as exempt u/s 10(10D) in A.Y. 2035-36.

If the consideration received under LIP “A” is claimed to be exempt as aggregate of the annual premium payable for LIP “X” and “A” did not exceed Rs. 5,00,000 for any of the PYs., the consideration received under LIP “B” would not be exempt.

If the consideration received under LIP “B” is claimed to be exempt as aggregate of the annual premium payable for LIP “X” and “B” did not exceed Rs. 5,00,000 for any of the PYs., the consideration received under LIP “A” would not be exempt. Exemption for consideration received under LIP “B” is preferred as it is more beneficial to the assessee.

Alternative treatment: If the consideration under LIP “X” was not claimed to be exempt u/s 10(10D) in A.Y. 2034-35 by the assessee, then, the consideration received under LIP “A” and LIP “B” would be exempt u/s 10(10D) in A.Y. 2035-36 since the aggregate of the annual premium payable for the LIPs “A” and “B” together did not exceed

Rs. 5,00,000 for any of the previous years during the term of these two policies. However, the most beneficial treatment is to claim LIP “X” and “B” as exempt.

It may be noted that in every case, the consideration received for LIP “C” would not be exempt u/s 10(10D).

Example 10:

| LIP | X | Y | A | B | C |
|--|-----------|-----------|-----------|-----------|-----------|
| Date of issue | 1.4.2023 | 1.4.2023 | 1.4.2024 | 1.4.2024 | 1.4.2024 |
| Annual premium | 2,00,000 | 2,00,000 | 2,00,000 | 3,00,000 | 6,00,000 |
| Sum assured | 20,00,000 | 20,00,000 | 20,00,000 | 30,00,000 | 60,00,000 |
| Consideration received on surrender as on 1.7.2033 | 12,00,000 | | | | |
| Consideration received as on 01.11.2034 on maturity | | 24,00,000 | | | |
| Consideration received as on 01.11.2035 on maturity | | | 24,00,000 | 36,00,000 | 70,00,000 |
| Note – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y. 2035-36, except LIP “X” and “Y”. | | | | | |

Eligibility for exemption u/s 10(10D) - The consideration under LIP “X” would be exempt u/s 10(10D) in A.Y. 2034-35, since the annual premium does not exceed Rs. 5,00,000 and also does not exceed 10% of actual capital sum assured.

The consideration received under LIP “Y” would be exempt u/s 10(10D) in A.Y. 2035-36, since the aggregate of annual premium payable for LIP “X” and “Y” does not exceed Rs. 5,00,000 and annual premium payable for LIP “Y” does not exceed 10% of actual capital sum assured.

The consideration received under LIPs “A”, LIP “B” and LIP “C” would not be exempt u/s 10(10D) in A.Y. 2036-37, since aggregate of annual premium payable for these three policies and LIP “X” and “Y” exceeds Rs. 5,00,000.

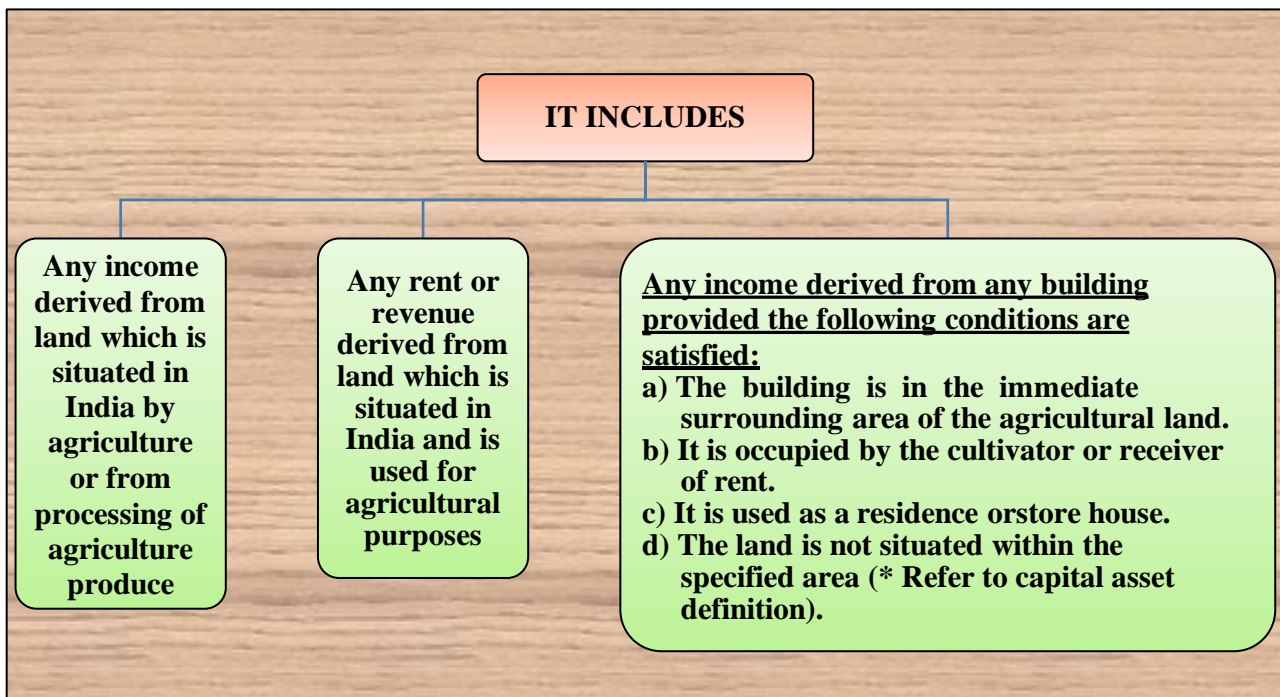
Alternative treatment: If the consideration on surrender under LIP “X” was not claimed to be exempt u/s 10(10D) in A.Y. 2034-35 by the assessee, then the consideration received under LIP “Y” would be exempt and the consideration received under LIP “A” or LIP “B” (any one) can be exempt u/s 10(10D) in A.Y. 2036-37. If the consideration received under LIP “A” is claimed to be exempt, as aggregate of the annual premium payable for LIP “Y” and “A” did not exceed Rs. 5,00,000 for any of the PYs., the consideration received under LIP “B” would not be exempt.

If the consideration received under LIP “B” is claimed to be exempt as aggregate of the annual premium payable for LIP “Y” and “B” did not exceed Rs. 5,00,000 for any of the PYs., the consideration received under LIP “A” would not be exempt. Exemption for consideration received under LIP “B” is preferred as it is more beneficial to the assessee.

If the consideration on surrender of LIP “X” and on maturity of LIP “Y” were not claimed to be exempt under section 10(10D) in A.Y. 2034-35 and A.Y. 2035-36, respectively, then consideration received under both LIP “A” and LIP “B” would be exempt in A.Y. 2036-37 (being LIPs issued on or after 1.4.2023, whose aggregate consideration does not exceed Rs. 5,00,000).

It may be noted that, in every case, consideration received under LIP “C” would not be exempt under section 10(10D).

AGRICULTURAL INCOME (SEC 2(1A)):



NOTE:

- 1) As per Explanation 3 to section 2(1A) of the Act, income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income and exempt from tax, whether or not the basic operations were carried out on land.
- 2) If the agricultural land is situated within the specified area, it is regarded as a capital asset and consequently the gain arising on transfer of it is taxable as “Capital Gains”.

- 3) Interest received by partner on his capital from a firm which is engaged in agricultural operation is treated as agricultural income.
- 4) Share of profit or salary received by partner from a firm engaged in agricultural operation is treated as agricultural income.
- 5) **Company - Dividend declaration**: Where a company derives agricultural income and declares dividend out of agricultural income, the dividend income so declared will not be considered to have the same character in the hands of the shareholders as in the case of the company.

PART C: COMPOSITE ACTIVITY

Special Rules for Tea, Coffee & Rubber (Composite activities): In the following cases the income shall be first calculate as if such activity is a business activity, there after apportion the income in the following manner:

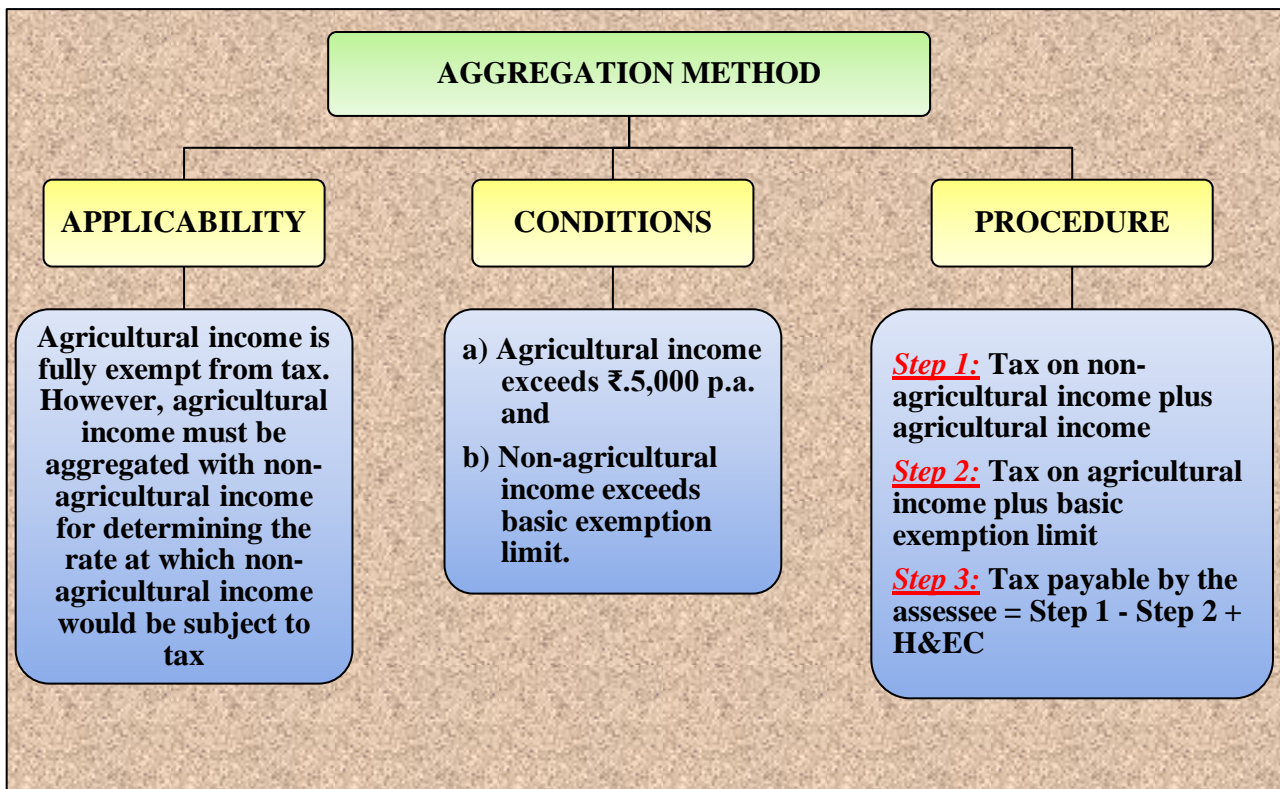
| | | Agriculture income | Business income |
|----------------|---|--------------------|-----------------|
| RULE 8 | Growing and Manufacturing of Tea. | 60% | 40% |
| RULE 7B | Income from growing & manufacturing of coffee | | |
| | a) Grown & cured | 75% | 25% |
| | b) Grown, cured, roasted, grounded | 60% | 40% |
| RULE 7A | Income from growing & manufacturing of rubber | 65% | 35% |

NOTE:

- 1) If income of assesses partly from Business & partly from agriculture then, depreciation has to be calculated on assumption that total income of assesses is from business only. Depreciation calculated shall be deemed to be allowed to assessee. (Total Depreciation shall be reduce from WDV of Block)
- 2) Income-tax shall be computed by aggregating the agricultural income and the non-agricultural income in the manner described in Sec 10(1).
- 3) If agricultural produce is used as a raw material in a manufacturing concern, then
 - (FMV of agricultural produce – cost of cultivation) = Agricultural income
 - Sale value of finished goods xxx
 - Less:** FMV of agricultural produce (xx)
 - Processing Cost (xx)
 - PGBP Income xxx

STUDENT NOTES:



PART D: AGGREGATION METHOD OF TAX CALCULATION**EXCEPTIONS TO AGGREGATION METHOD:**

- 1) In case of persons whose income is chargeable to tax at a flat rate of tax (i.e., partnership firms, companies), aggregation of agricultural income has no effect.
- 2) Similarly, if an individual or HUF has only long-term capital gains or lottery winnings or race winnings etc., aggregation of agricultural income will have no impact.

PART E: MISCELLANEOUS**SEC 14A: EXPENDITURE INCURRED IN RELATION TO EXEMPT INCOME:**

- 1) For computing total income under the five heads of income, no deduction shall be allowed in respect of expenditure incurred by assessee in relation to income which do not form part of total income (exempt income) under the act even though such exempt income has not accrued or arisen or has not been received during the said previous year.
- 2) Expenditure incurred during a previous year (say, P.Y. 2023-24) in relation to exempt income would be disallowed while computing total income of that previous year by applying the provisions of section 14A even though such exempt income has not accrued or arisen or has not been received during the said previous year.

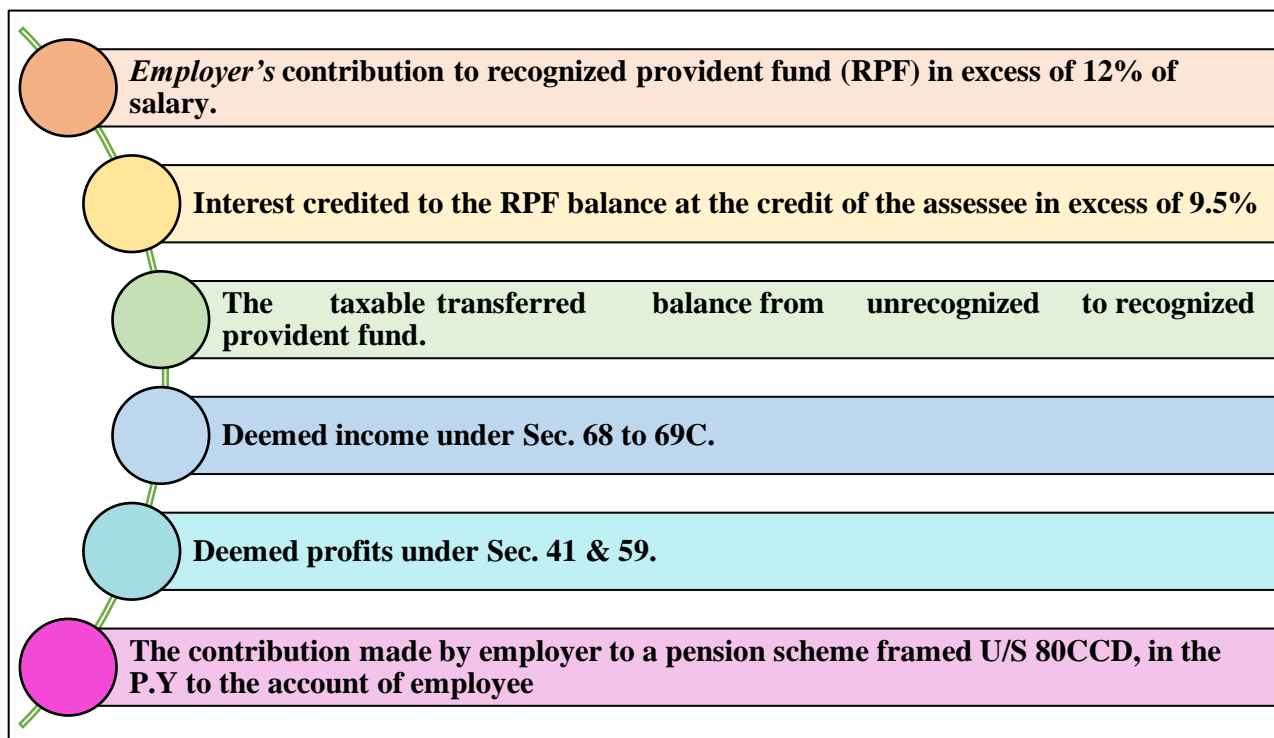
STUDENT NOTES:

LIST SOME EXAMPLES OF AGRICULTURAL INCOME AND NON-AGRICULTURAL INCOME

| Agricultural income | Non-agricultural income |
|---|---|
| <ol style="list-style-type: none"> 1) Rent for Agricultural Land received from tenant or sub-tenant 2) Income from growing of Flowers and Creepers 3) Income from sale of re - planted trees. 4) Share of profit or salary received by partner, from a Firm engaged in agricultural operations 5) Interest received by partner on his Capital from a firm which is engaged in agricultural operations 6) Fees collected for allowing cattle to graze on forest lands of spontaneous growth 7) Compensation received from Insurance Company due to damage of tea garden from hailstorm. 8) Income from growing mulberry leaves 9) Income from sale of plants and seedlings grown in pots. | <ol style="list-style-type: none"> 1) Income from marketing process, fisheries etc. 2) Income from supply of water for irrigation purpose. 3) Income from mining royalties 4) Income from sale of earth for brickmaking 5) Income from sale of forest trees of spontaneous growth of wood bark, leaves, fruits, etc. 6) Income from stone quarries 7) Income from dairy or poultry farming 8) Dividend paid by a company out of its Agricultural Income 9) Interest on arrears of rent payable in respect of Agricultural Income. 10) Income from sale of salt produced by flooding of land with sea water. 11) Remuneration of fixed percentage of Net profit received by Managing Agent, from a Company earning Agricultural Income. 12) Interest received by a moneylender in the form of agricultural produce 13) Transfer of urban agricultural land 14) Rental income from farmhouse given for non- agricultural purpose 15) Growing mulberry leaves and feeding them to silkworms and obtaining silk cocoons. |

16. RESIDENTIAL STATUS II**TOPIC 1: SECTION 7****INCOME DEEMED TO BE RECEIVED:**

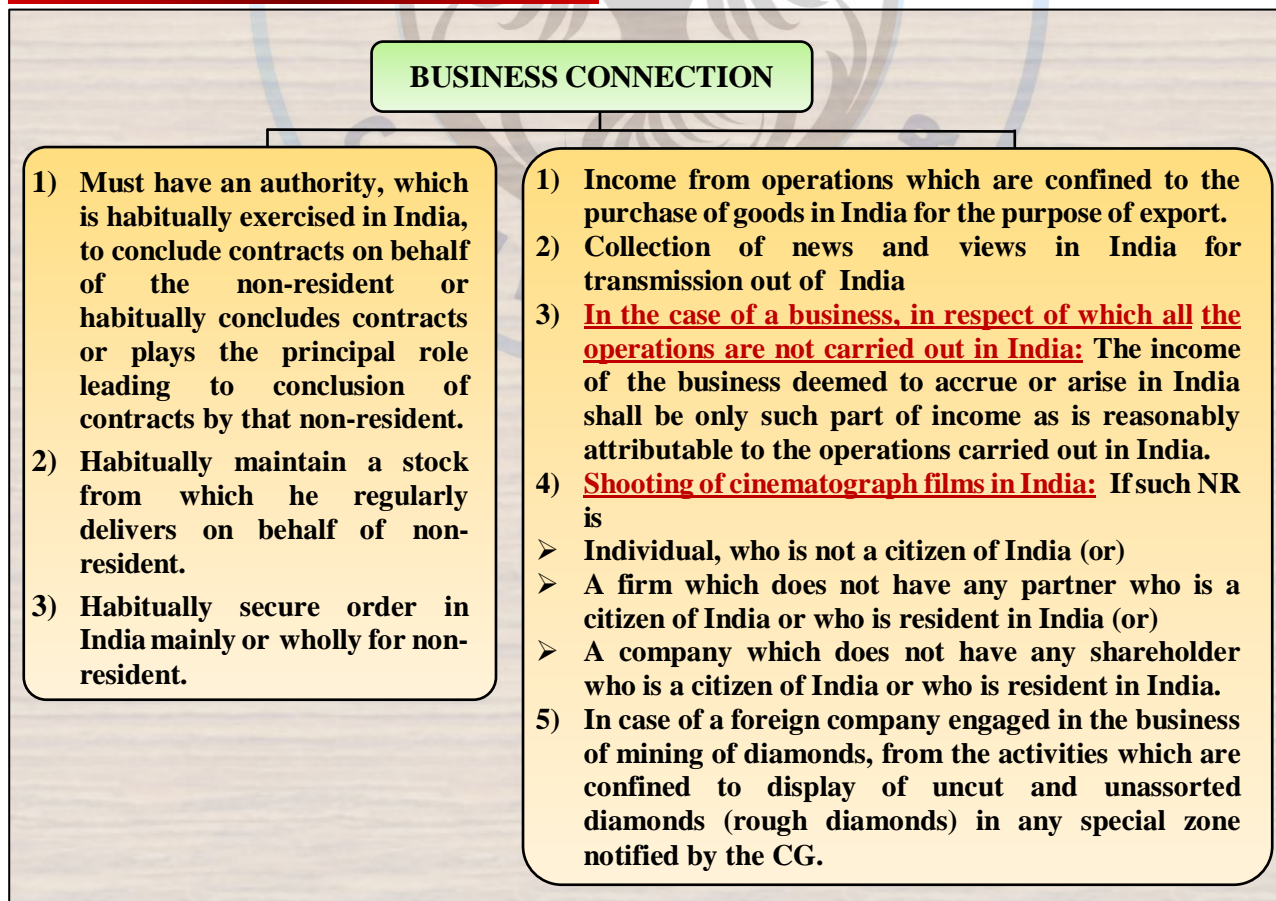
All assesses are liable to tax in respect of the income received or deemed to be received by them in India during the previous year irrespective of their residential status, and the place of its accrual and it includes the following:

**TOPIC 2: SECTION 9****Income Deemed To Accrue Or Arise In India:**

- 1) Salary earned for services rendered in India.
- 2) Salary payable by the Government to Indian Citizen for services rendered outside India
- 3) Dividend paid by an Indian Company outside India.
- 4) **Income accruing or arising outside India, directly or indirectly through or from:**
 - a) Any Business Connection in India
 - b) Any property/asset or source of income in India
 - c) transfer of capital asset situated in India
 - d) Income arising outside India, being any sum of money paid without consideration, by a resident Indian to a non-corporate, non-resident or foreign company, where aggregate of such sum > 50,000.

5) Interest, Royalty and fees for technical services as indicated below:

| Payable by → Nature of income ↓ | Government to Non- resident | Resident to Non-resident | Non-resident to Non-resident |
|---------------------------------------|------------------------------------|--|---|
| Interest on money borrowed | Deemed to accrue or arise in India | Deemed to accrue or arise in India except when funds used for a business / profession carried on outside India or for any source of income outside India. | Deemed to accrue or arise in India only when funds used for the purposes of business or profession carried on in India. |
| Royalty in respect of any rights etc. | Deemed to accrue or arise in India | Deemed to accrue or arise in India except when rights used for a business / profession carried on outside India or for any source of income outside India. | Deemed to accrue or arise in India only when rights used for the purposes of business or profession carried on in India or for any source of income in India. |
| Fees for technical services | Deemed to accrue or arise in India | Deemed to accrue or arise in India except when services used for a business / profession carried on outside India or for any source of income outside India. | Deemed to accrue or arise in India only when services used for the purposes of business or profession carried on in India or for any source of income in India. |

BUSINESS CONNECTION IN INDIA:

17. MARGINAL RELIEF:**Steps for computation of Marginal Relief:**

Step 1: Tax on Total Income (including applicable surcharge)

Step 2: Tax on nearest surcharge limit including surcharge

i.e, 50 lakhs/ 1 Cr/ 2 Cr/ 5 Cr/ 10 Cr + Income over and above surcharge limit

Step 3: Marginal relief = Step 1 – Step 2

If Step 2 > Step 1, Marginal relief = 0

Step 4: Tax liability = (Step 1 – Step 3) + HEC @4%

ALTERNATE MINIMUM TAX (AMT) [SEC 115JC]:**1) APPLICABILITY:**

- AMT is applicable to all assesses except company.
- Assessee is eligible to claim deduction u/s 10AA, 35AD, Chapter VIA heading -C.

2) EXCEPTIONS:

- AMT shall not be applicable if Adjusted total income is up to Rs. 20 lakhs in case of Ind/ HUF/ AOP/ BOI/AJP [i.e., Applicable to P.firm irrespective of adjusted total income] .
- The provisions of AMT would also not apply in case an individual / HUF/AOP/BOI/AJP under default tax regime section 115BAC and Co-operative society opting for section 115BAD/115BAE.

3) PROCEDURE: Accordingly, where the regular income-tax payable by an individual for a previous year computed as per the provisions of the income tax Act, 1961 is less than the AMT payable for such previous year, the adjusted total income shall be deemed to be the total income of the person. Such person shall be liable to pay income-tax on the adjusted total income @18.5% (15% in case of a co-operative society) + Applicable surcharge + Health and education cess. (Section 115JC).

Income tax payable by any person higher of:

- Income tax payable as per normal provision of income tax (or)
- 18.5 % /15% of adjusted total income + surcharge, if any + 4 % cess.

4) AMT CREDIT (SEC 115JD):

- **Amount eligible for credit:** Excess of AMT over normal tax liability [AMT-Normal tax]
- **Credit can be set-off from:** In the year in which normal tax is more than AMT. (Normal tax - AMT)

5) CARRYFORWARD PERIOD: AMT credit can be carried forward for setoff up to a maximum period of 15 assessment years succeeding the assessment year in which the credit becomes allowable.

NOTE POINTS:

- 1) Assessee can claim AMT credit in such subsequent P.Y. even if AMT is not applicable in subsequent P.Y.

- 2) **Tax credit allowable even if Adjusted total income not exceed ₹20 lakhs in the year of set-off (Section 115JEE (3):** In case where the assessee has not claimed any deduction under section 10AA or section 35AD or Deduction under section 80JJAA, 80QQB & 80RRB in any previous year and the adjusted total income of that year does not exceed ₹20 Lakhs, It would still be entitled to set-off his brought forward AMT credit in that year.
- 3) Government is not liable to pay any interest on AMT credit.
- 4) **Calculation of Adjusted total income:**

| Particulars | Amount (₹) |
|--|-------------|
| Total Income (NTI) as per Normal Provision of Income Tax | xxx |
| <u>Add:</u> Deduction u/s 10AA | xxx |
| <u>Add:</u> Deduction u/s 35AD | xxx |
| <u>Less:</u> Depreciation allowable as per Sec. 32 | xxx |
| <u>Add:</u> Deduction under chapter VIA heading-C | xxx |
| Adjusted Total Income: | xxxx |

Deduction u/s 10AA:

Eligible assessee: Assessee who started manufacturing or service-oriented business in SEZ in between P.Y 05-06 to P.Y 19-20

- Deduction u/s 10AA is not available if assessee is paying taxes under 115BAA/115BAB/115BAC/115BAD/115BAE
- Assessee should furnish C.A certificate certifying deduction claimed u/s 10AA is correct with due date for furnishing tax audit report u/s 44AB
- Ded u/s 10AA is allowed only if ITR is filed with in the due date

AMOUNT OF DEDUCTION:

| PERIOD | AMOUNT OF DEDUCTION |
|---------------|--|
| FIRST 5 YEARS | 100% of the profit derived from the export |
| NEXT 5 YEARS | 50% of the profit derived from the export |
| NEXT 5 YEARS | Amount Credited to SEZ Reinvestment Allowance Reserve A/c Or 50% of profit derived from the export |

Amount deposited in SEZ reserve should be used for purchase of new P&M with in 3 P.Y's from end of P.Y in which reserve is created

Amount deposited in SEZ reserve should not be used for –

- Distribution by way of dividends or profits; or

* For remittance outside India as profits; or

- For the creation of any asset outside India;

Where above amounts are mis-utilized or not utilized within 3 years, amount so mis-utilized or unutilized shall be taxable in the year of mis-utilization or after expiry of 3 years

1) **Profits and Gains Derived from the Export**

$$= \text{PGBP profit of unit located in SEZ} \times \frac{\text{Export Turnover}}{\text{Total Turnover}}$$

- 2) **Meaning of Export Turnover:** It means the consideration in respect of export by the undertaking being the unit of articles or things or services received in India or brought into India by the assessee in convertible foreign exchange within 6 months from the end of the previous year or within such further period as the competent authority may allow in this behalf. However, Sale proceeds deemed to have been received in India if such amount is credited to a separate A/c maintained by assessee outside India with approval of RBI.

However, it does not include freight, telecommunication charges, insurance attributable to the delivery of the articles or things outside India or expenses incurred in foreign exchange in rendering of services (including computer software) outside India.

CBDT has clarified that freight, telecommunication charges and insurance expenses are to be excluded both from "export turnover" and "total turnover", while working out deduction admissible under section 10AA to the extent they are attributable to the delivery of articles or things outside India. Similarly, expenses incurred in foreign exchange for rendering services outside India are to be excluded from both "export turnover" and "total turnover" while computing deduction admissible under section 10AA.

- 3) **Clarification on Issues Relating to Export of Computer Software:** The profits and gains derived from the on site development of computer software (including services for development of software) outside India shall be deemed to be the profits and gains derived from the export of computer software outside India.

FOR STUDENTS

